WORKING OF THE UTTAR PRADESH FINANCIAL CORPORATION

(Analysis of Loan Applications)

Thesis Submitted for the Degree of
Doctor of Philosophy

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P R E F A C E

The present work seeks to examine the operations of the Uttar Pradesh Financial Corporation, which is one of a large number of financial institutions established in our country during post-Independence era. The corporation being mainly a term-lending institution an effort has been made to survey the existing literature on various loan theories to ascertain the rationale and mechanisms of the term lending. It also seeks to ascertain the process of handling of the loan applications and to bring into sharp focus the nature an cost of projects financed, denominations of loans provided, positions of sanctions, disbursements and repayments etc., which involve the collection and analysis of some amount of statistical data.

In completion of this study, a number of persons were of great help and encouragement. Mention should be made here of Mr. N. Sethuraman, I.A.S. and Mr. N. S. Mathur, I.A.S former Managing Directors of the corporation, who very kindly permitted me to gather the desired informations, and Mr. B. L Manchanda, General Manager, who made the necessary arrangemen for me to obtain such informations from the records of the corporation. I take this opportunity to express my gratitude to each one of them, as well as to all those members of the

staff, who have provided materials for the study and supplied data for calculation sometimes even at the cost of their own work. Words are insufficient to express my heart felt gratitude to my preceptor Professor Sampat P. Singh of the National Institute of Bank Management, Bombay, for his precio guidance and insperation. I am deeply indebted to my teacher Dr. A. N. Agarwala, Senior Professor and Head, Department of Commerce and Business Administration for his immense assistan in collection of material for this study, and for his interes in my work and Mr. B. C. Tandon, Reader, Department of Commer and Business Administration for his valuable advice and encouragement.

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C O N T E N T S

List of Tables

List of Tables

List of Appendices

Chapter I

INTRODUCTION

The environment in which industries function today has changed considerably. In the nineteenth century the environment was truly private capitalist and the size of firms relatively small. The industries were able to raise finance largely from private sources or through placement of securities on capital markets. As the twentieth century started, the industri experienced difficulties in raising capital through the traditional channels both for financing new ventures as well as for the expansion of older ones. The problem is popularly described as the Macmillan Gap.

All over the world, there was search for specialised institutions which could mobilise the idle funds and make money available for investment in industry. This trend continued to gather force as the demand for funds from industry continued to rise at a fast rate. Thus, the traditional financing gave place to a large variety of industrial financing agencies such as Development Banks, Industrial Banks, Industrial Finance Corporations, Development Corporations, Industrial Mortgage Banks, Investment Banks, etc. This trend was naturally caught up by th developing countries trying deliberately to force the pace for industrialisation.

Institutional Financing :

during the nineteenth century with the establishment of Societe General de Belgique in Belgium in the year 1822[1], followed by the setting up of the Credit Mobilier of France in 1852. Many eminent authorities[2] on the subject have visualised the necessity for such financial institutions. Certain reports[3] of United Nations Organisations and the recommendations of some other committees[4] have also referred to the need for the establishment of such financial institutions.

Beginning of Institutional Financing in India :

Institutional financing in India started with the establishment of a few industrial banks[5], with the avowed object of industrial financing[6], but for want of forceful initiative, untir

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[1] Basu, S.K. : Industrial Finance in India : Calcutta, University of Calcutta; 1939, p. 281.

[2] Diamond, W.: Development Banks: Balimare, John Hopkins Press, 1957: and Boskey S.: Problems and Practices of Development Banks: Baltimare, John Hopkins Press, 1959.

[3] U.N. Report on Domestic Financing of Economic Development: New York, Department of Economic Affairs, 1950.

U.N. Report on Measures for Economic Development of Underdeveloped Countries: Department of Economic Affairs, 1951.

U.N. Report on Mobilisation of Domestic Capital in Cert Countries of the Asia and the Far East: Bangkok, Department of Economic Affairs, ECAFE, 1951.

U.N. Report on Processes and Problems of Industrialisation in Underdeveloped countries: New York, United Nations, 1

[4] Committee on Industry and Trade: London, 1929. Committee on Finance and Industry : London, 1931.

[5] See Appendix A.

perseverance, knowledge, organising ability etc., these institutions failed to accomplish the hope with which they have been established. Even then it has atleast induced further thinking on institutional financing which in India was naturally bound to be influenced by foreign experience. Some of the recommendations of various commissions, committees , conferences and eminent authors on the subject are worth mentioning:

Indian Industrial Commission headed by Sir T. H. Holland has found the banking system in India, inelastic and in-sufficient to meet the long term financial requirements of industrial development, and has recommended the establishment of industrial banks to ensure more elastic system of industrial finance[7].

The Central Banking Enquiry Committee under the Chairmanship of Sir B. N. Mitra has again recommended the formation of provincial corporations to supply required finance for development of industries[8].

The Indian Industrial Conference held at Bombay in the year 1915 has argued: "As the systematic development of industries cannot be carried on without sound financial aid and proper guidance, it is necessary to make efforts for the establishment

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[7] <u>Report of the Indian Industrial Commission</u>, 1916-18 p. XV.

[8] <u>Report of the Indian Central Banking Enquiry Committee</u> 1931, p. 509.

of industrial banks, similar to those found in foreign countries[9]

As L.C. Jain observes 'financing of industrial under-takings is a matter for special banking institutions, designed and able to offer long term advances'[10].

H.R. Soni has been convinced of the inadequacy of resources to finance Indian industries and has recommended the establishment of Industrial Banks on the pattern of those in Germany and Japan[11]. P.S. Loknathan thinks of the need for the establishment of a financial institution for industries which could be of immense assistance to them in several ways, i.e. increasing the supply of capital, placing securities in the market, promoting industrial units, procuring public confidence in industrial ventures etc.[12] According to Samant and Mulky the establishment of an Industrial Bank with Government control is an ideal financial intermediary to collect funds from scattered resources and to supply them to the deserving industrial propositions[13]. S.K. Basu conclu[des] that future of development of industrial finance in India should [be] sought in the establishment of a special machinery for providing

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[9] Report of the Eleventh Indian Industrial Conference hel[d] at Bombay on the 24th and 25th December 1915, Amraoti 1916, p. 5 as quoted by Maitin, T.P.: Institutional Financing in India: Agra, Sahitya Bhawan, 1971, p. 59.

[10] Jain, L.C. : Indigenous Banking in India: London, Macmillan and Company, 1929, p. 40.

11. Soni, H.R.: Indian Industry and its Problems: Lond[on] Longmans Green & Co., 1932, p. 205.

[12] Lokanathan, P.S. : Industrial Organisation in India: London, George Allen & Onwin Ltd., 1935, p. 261.

the particular type of long term finance, of which Indian industry stands in urgent need[14].

Thus in various observations, suggestions and recommendations the need for an institutional machinery for the supply of industrial finance in the country has been well emphasised. Ultimately the Government of India, while announcing the Industrial Policy in April 1945, pointed out that the question of the establishment of an Industrial Investment Corporation or some similar institution was under active consideration.

It was expected that the proposed system of institutional financing would (i) mobilize domestic capital; (ii) finance the productive channel of investment; (iii) accelerate the pace of industrialisation; (iv) provide technical and financial assistance to investors and industrialists; (v) help efficient conduct of industrial enterprises; (vi) inspire public confidence in industrial issues; (vii) develop the capital market; (viii) act as an agency for obtaining foreign capital; (ix) encourage new entrepreneurs; and (x) supplement the existing sources of industrial finance[15].

The post-war Indian economy posed a special challenge to industrial reconstruction and development as enormous funds

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[14] Basu, S. K.; Industrial Finance in India, University of Calcutta 1939, p. 377.

[15] Maitin, T. P.; Institutional Financing in India: Sahitya Bhawan, Agra; 1971, p. 62.

were required for the modernisation, expansion and promotion of various industrial units. But despite an urgent need for solving acute problem of financing the industries, no concrete step could be taken in this directing during pre-Independence days.

Institutional Financing During Post-Independence Period :

In the post-Independence period a large number of new financial institutions have been set up with a view to providing a long term financial assistance to industrial units. The nature of the financial assistance provided by these institutions, has varied greatly as some of them provide term loans, arrange for direct subscription of shares in and debentures of industrial units, provide underwriting of their issues and undertake guarantees for deferred payments; while some others also help the industrial units in their promotion and administration. Some institutions have dealt with only larger units, while others have concentrated their financial activities to smaller units only. Some institutions have functioned on all-India level while others have restricted their activities to their states.

Most of these institutions have been incorporated as statutory corporations on the basis of special statutes of the Parliament. Although an attempt was made to provide industrial finance through a few industrial banks, yet the Industrial Finance Corporation of India can be regarded as first specialised institution for industrial finance in this country, as all earlier attempts were

of making medium and long term finance[16] readily available to specific industrial concerns. Later on, on October 20, 1954 the National Industrial Development Corporation Limited was incorporated as a private limited company to encourage and assist those medium and large scale industrial units whose development was considered essential for the development of economy. Subsequently in February 1955, The National Small Industries Corporation Limit was set up as a wholly Government owned undertaking to encourage and assist small scale units by providing to them plant and machin ery on hire purchase system, by constructing industrial estates to be let out to them, by securing orders for production on behalf of them and by running Proto type Production-cum-Training Centres at a few selected places in India.

The Industrial Credit and Investment Corporation of Indi is also one such institution incorporated on March 1, 1955, which provides financial assistance and technical and administrative advice to industrial units in private sector. It also makes avail able long term foreign currency loans to industrial units. In April 1959 the Rehabilitation Industries Corporation Limited was set up with a view to promoting and financing industrial undertakings to create employment opportunities for displaced persons from East Pakistan. In order to provide financial assistance to f industry the Central Government set up the Film Finance Corporation of India in March 1960. The Agricultural Refinance - -

Corporation of India was also established in July 1963 to provide refinancing facilities of a medium and long term nature for devel mental schemes of agricultural sector of the economy.

To co-ordinate the activities of various financial insti tions the long felt need for an apex institution was fulfilled in July, 1964 with the establishment of the Industrial Developmen Bank of India as a wholly owned subsidiary of the Reserve Bank of India. It assists specialised financial institutions by refi ancing their loans and subscribing their securities. It also assists industrial concerns by granting to them and guaranteeing their loans and advances. It also undertakes research, surveys, techno-economic studies under its perview. In April 1968 the Agricultural Finance Corporation Limited was set up with the obj of providing financial assistance to farmers for adopting new agricultural strategies. All these institutions have been provi ing assistance to specific category of industrial units situated any where in the country.

Besides, there are eighteen State Financial Corporation established under the State Financial Corporations Act 1951 in 17 States (including Tamil Nadu where Madras Industrial Investm Corporation Ltd. was established in the year 1949 prior to enac ment of the above Act) and in one union territory as counter-parts of Industrial Finance Corporation of India. These corpor tions are expected to guarantee or grant loans and advances, to

underwrite issues, to work as agents of Governments and a few Central Financing Institutions for granting loans and advances etc. to comparatively smaller industrial units within its own territory.

During the last decade, two new types of financial institutions namely State Industrial Development Corporations and Sta Small Industries Corporations have come into being. There are eighteen State Industrial Development Corporations[18], as counter parts of the National Industrial Development Corporation of Indi each working in every state of the country with varied objective Similarly, there are eighteen State Small Industries Corporations each working in sixteen States and two union territories as coun parts of the National Small Industries Corporation of India. The objectives of these corporations vary from state to state bu most of them are engaged in procurement of raw materials and pla and machinery for small scale industrial units and also in the arrangement for sale of their products.

Object and Plan of the Study :

Thus, on the background of a large number of financial institutions working at national as well as state levels in the country, the present study seeks to analyse the working of the Uttar Pradesh Financial Corporation and its handling of the loa

applications of various industrial units. This institution was established in Uttar Pradesh with its head office at Kanpur on August 25, 1954. Its main object was to grant and guarantee loa and advances to industrial units, to underwrite their issues and to act as an agent of the Government and the Industrial Finance Corporation of India. Although the Corporation is performing al the above functions, except that of the underwriting, yet its main concern has been the granting of term loans. Hence, along with a general consideration of its working, a detailed analysis of a sample of hundred loan applications have been made to ascer tain the whole process of their handling by the Corporation.

The whole study has been divided into four parts :

(i) Term Loans;

(ii) Uttar Pradesh Financial Corporation;

(iii) Analysis of the Loan Applications; and

(iv) Summary of Main Findings.

The first part includes two chapters. In the first chapter the rationale of the term loans has been discussed givi due place to the description of the 'Real Bills Doctrine' and 'Principle of Productive Credits' of loans. The second chapter has detailed the mechanism of the term loans, as the Uttar Prad Financial Corporation is mainly a term lending institution.

The second part consists of five chapters, namely In duction, Management, Financial Resources, Procedure for Sancti

the introduction, the aims and objects, of its establishment, it operational policies and various schemes run by it, have been discussed. The chapter on the management seeks to present the general as well as the sectional organisation of the corporation Similarly the chapter on the financial resources seeks to elabo- rate contribution of each source to total resources of the corpo ration. The chapter on the procedure considers how applications received by the corporation are disposed of and how the amounts them are disbursed after their sanction? The last chapter of th part analyses how the corporation operates on its own loan schem and on various loans schemes of the State Government under the agency agreement which is based on the data recorded in various annual reports of the corporation.

The third part consisting of six chapters seeks to analyse a hundred loan applications considered by the corporati under its own loan scheme. An attempt has been made to study the attitude of the corporation towards the denominations of th loan applications, the constitutional set-up of the borrowing units, the purpose of the loans, the cost of the projects and various means of their financing, the sanction, the disbursemen and the collection of the principal as well as interest on the loan.

The fourth part consists of only one chapter, where all the important conclusions of various aspects of the analys of loan applications have been put together.

Data for the Study :

A sample of 100 applications, 58 sanctioned and 42 rejec has been taken into consideration, this number being about 20% o the total number of sanctioned and rejected applications upto June, 1970 . The data for these applications has been collected personally from the records in the head office at Kanpur. It is also worth mentioning that we are not taking a predictive sample and the intension is not to arrive at conclusions which would be applicable generally. The sample has been chosen largely on the basis of convenience and the results of our findings would merel be indicative of the trends and patterns.

A questionaire to elucidate the following types of infor mations was prepared and filled personally in respect of both sanctioned and rejected applications :-

1. Borrowing Units.
2. Date and Place of Establishment.
3. Nature and Cost of Project.
4. Means of Financing.
5. Amount Demanded for Various Purposes.
6. Borrowing Power.
7. Loans and Advances from Other Sources.
8. Date and Amount of Sanction.
9. Date of Rejection. / [illegible]
10. Period of Sanction.
11. Security Available./ offered?
12. Rate of Interest.

13. Disbursement.

14. Repayment.

15. Payment of Interest.

The informations numbering from one to seven are meant for both the sanctioned as well as rejected applications but the information numbering from ten to fifteen are exclusively for the sanctioned applications, whereas that of serial number 9 is exclusively meant for the rejected ones[20].

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[20] See Appendix E.

PART I

Chapter II

RATIONALE OF TERM LOANS

Economic development is accompanied by a process of financial development in which different types of financial inter mediaries one by one enter into the scene -- of which commercial banks are but one variety[1]. Financial intermediaries -- both bank and non-bank-play a two-fold role as providers of liquid assets and as creators of loanable funds. In other words, their main function is to collect funds by accepting deposits or loans and to lend them to needy borrowers and to earn interest on them

At earlier stages the banks were the only financial intermediaries. While making loans the banks were expected to invest funds in such a way that the demands of the depositors could be met at any time. Since the beginning of lending busine and over a very long span of years, short-term inherently self-liquidating loans (STISL)[2] occupied the dominant position. Short term usually meant a few months and self-liquidating aspect of the loan indicated that it was for a purpose which in the normal course of projected operation, would generate funds for its repayment.

[1]Gurley and Shaw : Money in a Theory of Finance : p. 24 as quoted by Ghosh, A. : Financial Intermediaries and Monetary Policy in a Developing Economy : Calcutta, The World Press Private Limited, 1964, p. 40.

The main features of such loans are as follows :-

1. On the one hand, inherently self-liquidating aspect of loan envisages that the borrower's need for banks' funds is essentially temporary and, on the other hand, it suggests that the timings of the need are determined by the predictable patterns of the business operations.

2. The specific needs for which such loans are requested for help the banks to make a meaningful evaluation of the risks involved.

3. Such lending also reduces the inherent risk exposure of the banks as the risk is bound to increase with the extension of the time horizon.

4. On the basis of STISL loans the banks reduce their likelihood of becoming frozen in the very financial structure of borrowing units. In case the bank supplies a long-term loan it suffers from the immobility of funds. If the bank thinks it necessary to insist on repayment, the borrower may have to make a major dislocation in the operational pattern. Under such circumstances the bank in its self-interest may be forced to continue with the loan.

5. STISL loans give a high degree of theoretical liquidity, which is consistent with and appropriate to the bank's deposit source of funds, provided that it does not reloan the funds from loan repayment.

6. During the periods of heavy demands for loans such lending enables the bank to serve the intermittant needs of many more customers than would be possible if the loans were to continuing borrowers.

STISL loans are either to support the seasonal inventry build-up, which later on alongwith heavier sales gives rise to accounts receivable, which, when collected, permits the repaymen of the loan or to serve the manufacturer's need to finance diffe ent stages of production. Such loans are mainly based on the following two principles :-

1. Real Bills Doctrine.
2. Principle of Productive credit.

The real bills doctrine propounded by Adam Smith is the earliest version of a lending theory under which the bank used t discount a real bill of exchange drawn by a real creditor upon a real debtor which, when became due, was really paid by that debtor[3].

This earliest form of bank lending was prevalent in many countries of the world under British crown upto twenties of the present century as the dominant form of bank credit. Commercial banks preferred those assets which the central bank preferred and the central bank in order to protect itself against loss an

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[3]Adam Smith : An Enquiry into the Nature and Causes of Wealth of Nations; Modern L[illegible] New York, Random House, Inc. 1937: p. 288. as quoted by Hunt William and Donaldson op. cit..

to discourage bad banking preferred sound banking assets. Bills of exchange were considered sound banking assets and ideal self-liquidating papers[4] with their origin in the actual commercial transaction. This doctrine of bank lending suffered with following drawbacks:

1. Banks on the basis of discounting of real bills were meeting only the temporary needs of the working capital of the borrower.

2. Credit extended on this basis gave a rise to the pri[...] level exactly in the same manner as the coined money.

3. It failed to put a restraint on the excessive use of credit by business units.

4. Rigourous adherence to such doctrine might accentuat[...] fluctuation in the bank loans, which are likely to expand in prosperity and contract in depression.

5. It also does not limit the amount of bank notes issu[...] because commodities may be sold a number of times and each sale giving rise to a real bill, will produce several bills outstandin[...] for only one item of goods.

6. It is difficult to distinguish satisfactorily betwe[...] real and fictitious bills as there is no sharp line of demarcati[...] between real and accommodation bills.

: **Modern Banking.** Oxford, The Clearendon

7. This doctrine lays great emphasis on the liquidity which in turn is determined on the basis of shiftability. It may be true for a single bank but not for the banking system as a whole.

Loans and advances on the basis of the principle of the productive credit was advocated by the Federal Reserve System of United States of America. In this case loans were provided for the purpose of financing successive stages in the production and distribution. This theory implies that every person, who produces satisfactory evidence to the effect that he is going to sell goods worth Rs. 100/- within a reasonable time, is entitled to borrow Rs. 100/- from the bank.

This doctrine is naturally favoured by the business world and judging from the tests of elasticity and responsiveness to the needs of trade, this principle enjoys immense theoretical superiority over the real bills doctrine. Moreover, if credit is restricted to the productive uses, there will be little danger of its being excessive in volume. But real danger in following this principle lies in the fact that in certain circumstances it may not lead to the extraction of forced savings from the public. It may also fail to channelise the thrift motive of the public to effective industrial savings.

Due to their increasing prosperity the bank deposits of the Americans used to remain unchanged for a considerable period of time. Hence their banks started thinking of making provisions

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It was almost an unknown term in the banking loan theories enunciated before 1930 of the present century. The Great Depression of 1929 brought such circumstances which reduced the earnings of the banks. Banks were also having excess reserves for being profitably employed in the economy. Hence they were induced to change their lending policies which centred round the 'short-term inherently self-liquidating loans' thus far. The 'term loan' got its due place in bank lending only after the Great Depression.

Term loan is an extension of credit with a final maturity of more than a year from the date it is made[5]. At the initial stages of the development of term lending, such loans were granted to replace the short-term loans which were renewed frequently technically known as 'rolling over'. This kind of loan has the following basic characteristics:

1. It is a business loan which has an original maturity of more than a year.

2. Its repayment is generally required in periodic instalments except when the borrower fails to comply with the provisions of repayment in which case the bank demands repayment of whole amount outstanding in a lump sum.

3. It is granted on the basis of formal loan agreement containing terms and conditions relating to such loans.

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[5]Hugh R. Chase : 'Term Loans' in Banker's Hand Book edited by William H. Baughn and Charles E. Walker.

4. It is generally granted to concerns that have no acces to the capital market, i.e., they are not able to sell bonds or debentures and other capital issues to the public.

5. In earlier days term loan was granted for the purpose of retiring bonds, debentures and preferred stocks. Later on it was also given to finance the modernisation or expansion of plant and equipment, the acquisition of other business or properties or the supply of working capital required to bring about an increase in sales.

6. Sometimes term loans also adopted the form of 'Revolvi Credit' which is negotiated when a concern is planning expansion but because of undertainties fails to schedule its financial need exactly. Under such agreement funds are to be supplied when neede and bank charges a commitment fee on the unused portion of the amount avialable to the borrower.

Banks while shifting from short-term credit to term loan sacrificed apparently the cannon of liquidity which was a major consideration in the real bills doctrine as well as principle of productive credit. Since the major part of bank's liabilities consists of demand deposits hence the assets should be such that they can be easily converted into cash. This induced the banks for short term lending to finance the working capital needs of industry and trade.

An individual bank, if it holds real bills, can transfer them to other institutions, in case there is need for funds. But

and destroy the very basis of liquidity of such loans. For maintaining the liquidity of whole banking system some such agency is needed to whom all real bills can be finally shifted. This gap ~~has been~~ filled by the Central Bank. So the ultimate liquidity of the loan depends on the acceptance of assets covering the loans by the Central Bank. Thus, if the central bank is willing to make advances to commercial banks against their medium and long-term loans, such loans could also be regarded as liquid. Thus the traditional concept of the liquidity in modern times has been replaced by the shiftability criterian which refers to the ability of the bank to transfer the assets at prices involving no loss of capital.

The latter criterian is applicable even to term loans although they are for longer periods and are granted for expansion of existing plant capacity, establishment of new plants or strengthening the financial position of the existing business. Such employment of loan increases physical output, lowers cost and raises profit which is used to repay such loans. Thus the liquidity of such loans depends on the anticipated income of borrowing units. This ultimately depends on the stability of the economy and the continued consumption of goods and services produced by the borrowing units.

Indian banks do not necessarily stick to the cannon of liquidity. Personal loans and loans against stocks and shares, insurance policies and real estate are quite common with them. They also follow the practice of rolling over, i.e., short-term

loans, overdrafts or cash credits once granted are renewed frequently.

This practice enables borrowers, to some extent, to get facilities similar to that of formal term loans. Yet it is fundamentally different from the term loans. Term loans are granted at a specified rate of interest for a specific period of time and during that period except amartisation payment, the borrower has no obligation to repay in full. Despite more or less automatic renewal of short-term loans, the bank at the time of renewal has got the opportunity to review the credit and recast its terms, which is not so in case of term loans, hence it requires a specifi appraisal prior to sanction of such loans.

The regular amortisation of term loans has greater degree of liquidity than frequently renewed short-term loans. It also disciplines both the bank and the borrower on the basis of long-term planning of cash inflows likely to be used for repayment.

Chapter III

MECHANISM OF TERM LOANS

The term loan differs from the short-term loan mainly in respect of the maturity period, but it also requires a differen type of treatment for appraisal of the loan application, valuation of the security offered, fixation of the rate of interest to be charged, determination of restrictions to be imposed, fixing up of the follow-up and amortisation procedures, etc. All these aspects have been considered in this chapter.

In this respect mere assessment of the credit worthiness and the current financial position of the borrower is not sufficient. The coverage of assessment in this case is wider, with the result that the standards and methods adopted are similar to that of the investment decision. Analysis of the balance sheet may perhaps be sufficient for the short-term loans but appraisal of term loan requires a dynamic approach to the projections relating to future trends in respect of output, sale, cost, return, flow of funds, etc. This provides a broad guidance for judgement regarding the future prospects of the borrowing unit and for working out the terms of the loan.

There is no standardised approach for such appraisal. Various factors come to picture in every case. Hence a single formula does not give sufficient ground for determining acceptabil

or non-acceptability of any loan proposal. While scrutinising the loan applications, weightage is given to the type of organisation and activity of the borrowing unit, the nature of its produ and their market potentialities, size and quality of management, soundness of financial position and the amount and term of the loan, etc.

There are mainly four aspects of appraisal of the term loan viz., technical, commercial, managerial and financial which ma be detailed as follows :-

Technical Aspects :

In this area information is gathered regarding various things required for the actual production process, such as, land, housing, transportation, raw material, fuel, power and water supplies, etc. The lending institution has to satisfy itself with regard to the availability, accessibility and quality of the above requirements. If the technological set up to be adopted by the project is new and is to be imported from abroad, all aspects of its application in Indian conditions are considered. In addition, the availability of all types of workers, and available training facilities for them are also taken into consideration. The lending institution also examines the feasibility of the project with particular reference to following aspects :

1. Location : If the project is located near the source of raw material, labour and power supply, market, it will be

considered more feasible.

2. Land and Building : If land is to be acquired, due regard is paid to the future expansion of the borrowing unit. In case of buildings its construction and suitability are also examined.

3. Machinery and Plant : Complete details of existing plant and spare parts are obtained. Cost should be based on proper quotations from suppliers. Provision for insurance, freight, duty, transportation to site, erection charges, etc. should be examined. Renovation and modernization deserves full-scale survey by technical experts of the lending institution.

4. Technical Competence : Lending institution also tries to get information regarding availability of suitable technical personnel and their training, etc.

5. Raw Material and Stores : Arrangement for regular supply of raw materials is also examined where due regard is given to government policy on its imports and prices.

6. Adequate Supply of Power, Water and Labour : In every case it is necessary to ascertain that there will be no difficulty in getting additional power for further expansion. Availability of sufficient water and skilled as well as unskilled labour near the industrial establishment is also examined.

Commercial Aspect :

It is also necessary to consider the earnings of the projects which depend on the absorption of the additional output

by the market. The present relationship between the demand and the supply of the output is studied to know the presence of uncatered demand in the market, which is determined by factors like rising price level and enforcement of controls. The uncatered demand may also be due to lack of production capacity. Hence the level of working of other units in that industry is also studied to ascertain whether all of them are working at optimum capacity level. If not, then the reasons may be non-availability of certain factors, labour disturbances or deliberate restriction on output by producers association.

Apart from this, possible future changes in the volume and pattern of demand and supply and competitive position of the borrowing unit should also be examined. Information about capacity production, age of the plant and equipment, technology adopted, profitability and scope for expansion in respect of other units in that industry should be collected and studied.

Demand forecasting is a very important tool which helps in estimating the future sales and revenue which determine the capacity of the borrowing unit to repay the loan. The demand is affected by a large number of factors such as distribution of population, technological innovation, structural changes in the economy, taste of consumers, etc. It may not be possible to fully quantify these influences; still their possible impact should be studied. The demand for any commodity is mostly affected by its price and the income of consumers. Hence the nature of the

commodity needs to be examined. Changes in the price and income affect them differently. In order to know the future possibility, the trend, based on the demand schedule of the past, can be projected which is generally adopted in case of consumer goods. For intermediate and capital goods future forecast is a bit complicated In the former case the probable expansion of industries and growth of new industries using such goods and in the latter case the structural changes in the economy and technological development need also be considered.

Estimation of demand is neither wholly accurate nor absolutely reliable, but is simply an approximation, even though such estimates may be based on accurate data and calculated with the help of the advanced statistical methods. Hence a provision for error is also made in such approximations.

Managerial Aspect :

The confidence of the lending institution in the repayment prospects of the loan depends, to a large extent, on the management of the borrowing unit. Technical competence, administration abilit integrity and resourcefulness of the management are the qualifications which generally win the favour of the lending institutions. In the competitive markets of today the progress of enterprise depends on management. Hence the appraisal of management is an important aspect taken into consideration in considering the term loans.

Financial Aspect :

Financial considerations include the following :

1. Cost of project and reliability of estimates;

2. Adequacy and avialability of finance from various sources;

3. Possible effect of the project on production, sales, net earnings etc; and

4. Repayment schedule of the loan.

For financial appraisal adequate financial information, balance sheet and fund flow information, a detailed review of various financial obligations, commitments and contingent liabilities for a number of years should also be Examined! considered. Purpose of loan, financial strength and earning prospects in relation to the size of the loan and proposed maturity will also have to be studied. In case of specific loan the lender will examine the extent to which it is going to generate and/or improve the earning, fund generating capacity of the borrowing unit. In case of non-specific terms loans net cash flow or cash throw off provides good basis. In this respect the following basic data are needed:

1. Cost of the project.

2. Cost of production and profitability.

3. Cash/fund flow estimates during currency of the loan.

4. Proforma Balance Sheets.

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Cost of the Project :

It is estimated on the basis of comparison with similar projects which were considered previously for loans. It also helps in ascertaining appropriateness of various estimates submitted by the borrowing concern.

The estimation of the cost of projects includes expenditure on land, building, plant and machinery, preliminary expenses, technical know-how and certain unforeseen costs.

After making an estimate of the cost of project including working capital requirements, the lending institution enquires about various sources of funds at the disposal of the borrowing unit. They may be as follows :-

1. Capital : The amount raised by way of capital and its appropriate relation to other long-term sources are considered. In the case of share capital the lending institution looks into the arrangement proposed to be made for marketing the equity or preference shares.

2. Retained Earnings : Efficient management following a prudent and cautious policy often builds up substantial amount from the profit in the form of reserves and surplus which may also be available to finance a part of the cost of project. It require a consideration of the fact whether such reserves will be available in form of cash to meet the requirement or not.

3. Deferred Payment : Sometimes due to acute shortage of foreign exchange, the government requires the concern to secure

a deferred payment term for importing plants and machinery. It is also helpful in solving financial problem for some time as it restricts the out-flow of cash.

4. Long-term borrowing : Long term borrowing, if any, should be clearly indicated and its nature and composition should be studied because its repayment may come in the way of repayment of present loan applied for.

5. Other sources : Sometimes loans or deposits are also accepted from directors or public to finance the project. The extent of its contribution is examined with particular reference to its financial effect on the concern.

After ascertaining the proposed means of financing as mentioned above, it is necessary to determine the phasing of the project so that the arrangements can be scheduled time-wise. If the project is to be financed partly by share capital, it should be raised first and before disbursement of the loan, the lending institution will see that the borrowing unit has created sufficient capital assets to provide the required margin for the loan. Where the loan is intended to be utilised for construction of building, purchase and installation of plant and machinery borrower will not need the entire sum at a time. Hence schedule of disbursement will be drawn and borrowing unit will be getting funds from time to time as per schedule. Thus the possible diversion of funds to other uses is avoided. Sometimes payment may be made direct to contractors to ensure financial discipline on the borrower.

Cost of Production and Profitability :

Information is also gathered in respect of earning capacity of the borrowing unit, which depends on the cost of production and the selling price. Generally cost of production is underestimated and the project is apparently made more attractive. To avoid this and to have a precise idea of the important components of cost, data regarding each component of the total cost should be obtained. Profitability of any concern depends on the total cost of production and total sales. Sales can be estimated at first in physical units. These are affected by quality of the product and also by the market situation. Such physical volume of sales multiplied by the current price of the product or more conservatively by some lower price, will give sales figures which when compared with the cost of production, will indicate the profitabili

Cost of production and sales estimates are made to find out the break-even point of the project. Break-even level indicates minimum level of output sometimes expressed as a percentage of fuller capacity. It is helpful in deciding the extent of volum or price fall which can be absorbed without incurring losses by the project.

Cash Flow Estimates :

Alongwith measurement of earning capacity the lending institution will also ascertain the cash flow. It ensures sound financial planning and the availability of cash for acquisition

of fixed and other assets during construction stage and working capital thereafter. Repayment of instalments of loan is also based on cash generating capacity of the project which is revealed by the cash flow estimates. Even if cost of production and profitability estimates show profit, it is not sufficient because such profit should be avialable in cash and in right time to meet the operation requirement of the project as also for the repayment of the loan.

Proforma Balance Sheets :

In case of established concerns past records are available So forecasts, based on previous performance, are also helpful in financial analysis. This approach will reveal quality of management, the financial strength of the concern, the market situation for the product. For this it is necessary to study balance sheets and profit and loss accounts for the past few years, which helps in estimating the cash flow and the balance sheet for the coming years Figures of the cash flow act as a link between balance sheet of one year with other. The estimated balance sheets at different points of time give an outline of financial structure of the project as it has evolved and is helpful in determining the financial viability.

In respect of the term loans the lending institution has to satisfy itself about the solvency of the concern which in turn depends on the capital structure, earning capacity, profitability in relation to sale and ability of the concern to meet its obligat

as and when they mature. This is ascertained on the basis of certain ratios which are as follows :

1. Debt-Equity Ratio : Financial structure of a firm should reveal a satisfactory balance between owned and borrowed funds where the former includes the share capital, premium on issue of shares free reserves and surplus, and the latter includes debts and debentures maturing within a year. Debt equity ratio can be calculated by dividing debt by equity generally expressed in relative terms which may be compared to conventional norms.

2. Current Ratio : The ratio of current assets to current liabilities is known as current ratio, which reflects short run financial soundness of the concern. Current assets include assets to be converted into cash within a period of a year such as stock of raw materials, stores, work-in-progress and finished goods, book debts, bills receivables, pre-paid expenses and cash, etc. Similarly current liabilities cover all short-term obligations which must be met within a year. Current ratio is obtained by dividing the current assets by the current liabilities.

Generally current ratio varies from industry to industry and from concern to concern. It indicates only quantitative cover which never gives any indication regarding quality of the current assets and current liabilities. So while judging the adequacy of such ratios, examination of the composition and quality of assets and liabilities is also essential.

3. <u>Sales Ratio</u> : Above ratios should be supplemented by examination of profit and loss account where following ratios can be calculated :

(a) <u>Ratio of Sales to Total Capital Employed</u> : It is also called turnover of total capital employed. Capital is invested in fixed assets which are used for manufacturing goods. Manufacturing activity can be maintained only if sales are good, which in turn means good profit.

(b) <u>Sales to Receivables Ratio</u> : Such ratio is calculated by dividing sales by receivables. It indicates position of credit sales and its collection. The higher the ratio, the better the position.

4. <u>Profitability Ratio</u> : In order to judge the earning capacity the following ratios are calculated :

(a) <u>Profits to Sales Ratio</u> : Profit is earned from sales. When operating profit is divided by sales it serves as a yard stick of efficiency of production and a measure of margin on sales price.

(b) <u>Profits to Total Capitalisation Ratio</u> : It indicates the earning power of both the owned and borrowed capital. Such ratio is calculated by dividing profit before interest on borrowed fund and taxes by the total capitalisation of the concern.

(c) <u>Profits to Equity Ratio</u> : It is calculated by dividing net profit after taxes with the equity capital of the concern. It determines the dividend paying capacity of the concern. A

higher ratio is indicative of brighter prospects of attracting new capital.

(d) Debt Service Coverage Ratio : It shows the ability of the concern to pay the interest due on the long-term debt. It is also helpful in determining the period of repayment and the amount of instalments. It is arrived at by dividing net profit after taxes plus interests on long-term debts and depreciation by total of interest on long-term debt and principal instalment. It indicates margin of safety which exists for lender.

After the term loan analysis and determination of the ability to repay the loan, the terms are finalised. An agreement known as the Loan Agreement is signed by both the parties. Loan agreement states the amount of loan, interest rate, schedule of repayment, final maturity and security etc. During several years of duration of term loans many things could happen to cause a deterioration in financial position of the borrower. Hence various provisions known as 'Restrictive Covenants' are also included in the agreement. These provisions may be detailed as follows :

Security :

Security consideration which assumes prime importance in short-term credit is also considered significant in term loans. Adequate assets protection behind a term loan provides against loss which may result from errors of judgement in term loan appraisal. In industrially backward areas security is of particular importance because the information on character, integrity and

creditworthiness of the borrower is not available. In our country, term lending institutions depend more on securities for repayment of the loan than on management and earnings of the borrowing concern. The following aspects of security deserve particular consideration :

Type of Security : Generally lending institutions accept the existing industrial assets as well as those to be created by the loan as security. Sometimes non-industrial assets like land, residential buildings are also accepted as supplementary security as an interim measure till sufficient industrial assets are created to cover the loan. In addition, personal guarantees of the directors, managers, proprietors and partners, etc., are also obtained which induces them to pay utmost attention to the management of affairs of the concern.

Attention should be given to the statutes in accordance with which these lending institutions have been formed, e.g., in our country Industrial Finance Corporation Act and State Financial Corporations Act provide that no accomodation shall be given by the corporation unless it is sufficiently secured by a pledge, mortgage, hypothication or assignment of government or other securities, stocks, shares or secured debentures, bullion, moveable and unmoveable property or other tangible assets, etc. The onus of chosing the right type of security and the responsibility of valuing it and fixing a margin on it is placed on the lending institutions themselves.

Nature of Charge : Mortgage on fixed assets is the usual charge for industrial loans. The mortgage may take the form of a legal or an equitable mortgage. In legal mortgage a deed is executed and registered, which authorises the holder to deal with the security in the manner set out in the deed without intervention of the court of law. But it is costly because of high stamp duty, and, time consuming because of delay in registration of documents. In respect of term loans for relatively shorter period, equitable mortgage is taken as more economical and suitable. But it is accepted only to a limited extent for interim loans where legal mortgages are in the process of completion. It is not very popular because:

1. It can not be created at places other than Presidency towns or such other places as are notified.

2. Property mortgaged cannot be sold without intervention of the court.

Another way to accept assets as security is by way of hypothecation, which is generally in respect of movable property. A hypothecation of movable property will not prevail over subsequent charges taken without notice of the hypothecation which is deemed to be given alongwith the registeration of charges.

Valuation of Security : There are various bases of valuation such as book value, current market value or replacement value. A rigid application of the book value may show the assets at a nominal value but if sold in the market may fetch a high price. Adherence

to market value is also not going to afford proper basis as market value of the asset is taken at a moment of time, whereas term loans ranges over a period of years and many factors may come in the way to affect the market price prevailing at the time loan was sanctioned. Similarly replacement value may be an overstimate. So any particular type of valuation may not be regarded as best for all but it is applied as per the type of assets as follows :

Land : For its valuation generally services of the retired revenue officers are taken and sometimes it is valued at cost but usually at local market value. Recent sales in neighbourhood, proximity to road, market and other centres, possibilities of future development, etc., are taken into consideration.

Building : Valuation is done by architects or engineers generally on the basis of replacement cost less depreciation for the period the building was in use. While making valuation, area, type of construction, material used, age of building, maintenance and condition of the building, etc., are taken into consideration.

Machinery : Value of new plant and machinery is equal to its invoice value plus freight, duties, insurance, transportation and erection charges. In case of old machinery it is valued at cost less depreciation but sometimes at replacement cost less depreciation.

Security consideration, valuation of security, methods of operation and procedure followed vary from institution to institution. Absolute uniformity in policy and procedure is neither

possible nor desirable. Every term lending institution has its own way of considering security.

Interest :

Rate of interest is the second major item included in the term loan agreement. It is dependent upon the financial standing of the borrowing concern, integrity of its management, the period of the loan and the degree of risk involved in the project. Moreover, most of the borrowers are more interested in getting term loans than in the rate of interests they are required to pay. So the rate is fixed such that it should cover the cost incurred by the lending institutions to make the amount available as term loan. In our country it is general practice with some of our term lending institutions to charge uniform rate of interest irrespective of type and size of borrowing concern and the degree of risk involved. Although many term loan agreements are written with fixed interest charges, the agreement also makes provision to increase the rate of interest under certain given circumstances and also to reduce it in case of regular payment.

Restrictive Covenants :

Sometimes project may be approved subject to certain financial restrictions, included in the loan agreement, which is known as 'restrictive covenants'. These are designed to protect the interest of the lending institution and to ensure the maintenance of the soundness of financial position of the concern. These covenants may be as follows :

1. The borrower may be required to give highest priority to the repayment of the loan.

2. The borrower may also be required to maintain a given current ratio so that the working capital is maintained at a particular level.

3. It may lay down the conditions for the payment of dividend or distribution of earnings, because amortisation of term loan is related to cash flow and distribution of earnings causes a reduction in the cash flow.

4. The loan agreement may also provide that the selling commission, etc., will not be disbursed during the currency of the loan before making annual payment towards amortisation of the loan.

5. The borrower may be prohibited from selling the business assets. If such assets are sold the borrower may be required to apply the proceeds for final repayment of the term loan.

6. Borrowers may also be prohibited from investing the liquid funds, from contracting the consolidation and merger with any other concern and from giving the guarantee in respect of any loan, etc.

7. Borrowers may be required to maintain adequate accounting record and to furnish the financial statements regularly for the purpose of scrutiny and verification, as follow-up activity.

Follow Up :

After sanctioning the loan a well designed procedure of follow-up is undertaken. Since the lending institution is concerned with the progress of the project, it keeps a constant watch during the currency of the loan. In follow-up it is seen that construction schedule is adhered to, plant and machinery and other equipments are received in accordance with plan from the supplies and when production starts, the sales and profits of enterprise are in line with those originally estimated. Under the follow-up following aspects are covered :

1. The progress in respect of acquisition of land, purchase of plant and machinery and acquisition of services of engineers are ascertained.

2. The cost of production and sales revenue are examined and are compared with the original estimates.

3. Position of the employment of labour and technical personnel is also looked into.

4. Additional finance from any other source and changes in the value of security are scrutinized.

5. Balance sheet, profit and loss account, insurance policies are examined.

6. Position regarding provision for income tax and rent rates and taxes is examined.

On the basis of this follow-up, if serious handicaps are revealed, the causes must be properly investigated through inspection where inspectors are required to gather information on all financial aspects not covered by periodical reports submitted by the borrowing units. In order to remedy the defects that may have come to light during the inspection, the lending institution may give suitable directions to the borrowing concern. If the loan agreement so warrants the lending institution can also exercise the right of nominating a person on the management of the borrowing concern. In fact, maintenance of close contact with the borrowing unit is the best guarantee for the security of the credit and its regular amortization.

Amortisation :

The acceptance of repayment of the term loan is known as amortisation. Usually term loans are amortised in the following two ways :

1. Balloon Payment : Sometimes lending institutions might defer the payment of large amounts to final maturity as the conditions at final maturity may be sufficiently favourable to permit such repayment. But usually this is not in practice.

2. Equal Instalment : Borrowing units are required to make repayment out of the profit in equal instalments. This increases owner's equity and improves the debt-equity ratio. This method of amortisation, sometimes called as 'forced reinvestment of the profit', is most prevalent in our country.

The lending institution sets up such system for collection which specifies due dates for payment of principal, interest, commitment fees, etc. It also states the dated when financial statements, certificates, schedules, etc. are to be furnished. When a violation of the terms of the agreement comes to picture the lending institution may also demand a lump sum payment of the loan. There are chances where the lending institution may not take such action but may apply amendments, waivers, consent or inforcements type of courses of actions. An amendment is a permanent change such as lowering the rupee requirement of working capital. Even if the lending institution does not apply amendment (i.e. wishes to maintain working capital requirement) a waiver can be issued modifying the requirement for a specific period of time. A consent is a description of a specific exception (e.g., if the sale of the assets is prohibited by terms of agreement a consent could be given to sell one plant). If none of the above is applicable then the lending institution would enforce lump sum payment on the borrower.

It might appear that term loans differ from short-term loans mainly in respect of the maturity involved. But this in-turn causes significant deviations in respect of credit analysis

PART II

Chapter IV

UTTAR PRADESH FINANCIAL CORPORATION

The Uttar Pradesh Financial Corporation has been established by the Uttar Pradesh Government in accordance with the section 3 of the State Financial Corporations Act 1951 (No. LXIII of 1951) on 1st November 1954, with its head office at Kanpur. The corporation has also opened two branch offices, one at Ghaziabad and other at Varanasi, to look after the needs of entrepreneurs in western and eastern districts of the State.

Aims and Objects :

The State Financial Corporations Act 1951, has authorised the corporation to transact the following types[1] of the businesses:

1. Guaranteeing of loans raised by industrial units from institutions or public which are repayable within a period of twenty years and also guaranteeing of the deferred payments of any industrial unit for purchasing of goods in India.

2. Underwriting of the issues of the industrial units.

3. Granting loans or advances to industrial concerns which are repayable within a period not exceeding twenty years. It can also subscribe the debentures of industrial units redeemable within said period.

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[1]Section 25 of the State Financial Corporations Act, 1951.

the Industrial Finance Corporation of India, for the financial assistance granted by any of them.

Thus the aim of the corporation is to provide financial assistance to the industrial units established or to be established in Uttar Pradesh whether organised as Public Companies, Co-operative Societies, Private Companies, Partnership Firms, Sale-Proprietory concerns or Hindu undevided Family units. These concerns should be engaged or about to be engaged[2] in manufacturing, preservation or processing of goods, or in mining or in generation or distribution of electricity or any other form of power. Subsequent amendments in the original Act have also authorised the corporation to provide financial assistance to hotels, transport agencies and industrial estates.

Limits of Accomodation :

The maximum loan which can be sanctioned out the corporations own funds is Rs. 10 lakhs to Sole Proprietary concerns, Partnership Firms and Private Companies and Rs. 20 lakhs to Public Companies and Co-operative Societies. The Hindu Undivided Families have ceased to get financial assistance from the Corporation.

So far financial assistance in the form of deferred guarantees for purchase of indigenous machinery is concerned there is

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[2]Sec. 2(C) of The State Financial Corporation Act, 1951.

4. Working as agent of Central or State Governments or the Industrial Finance Corporation of India, for the financial assistance granted by any of them.

Thus the aim of the corporation is to provide financial assistance to the industrial units established or to be established in Uttar Pradesh whether organised as Public Companies, Co-operative Societies, Private Companies, Partnership Firms, Sole-Proprietory concerns or Hindu undevided Family units. These concerns should be engaged or about to be engaged[2] in manufacturing, preservation or processing of goods, or in mining or in generation or distribution of electricity or any other form of power. Subsequent amendments in the original Act have also authorised the corporation to provide financial assistance to hotels, transport agencies and industrial estates.

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[2]Sec. 2(C) of The State Financial Corporation Act, 1951.

no limit except that the amount of loans and advances together with the amount of guarantee given to any single industrial concern does not exceed in aggregate ten percent of the paid up share capital of the corporation[3]. Normally, the corporation does not sanction large financial accomodation in individual cases.

Purpose of the Loan :

The Corporation primarily intends to grant loans to industrial concerns for acquisition of fixed assets, for establishing new units or for renovation, expansion or modernisation of existing plants. The corporation does not grant commercial or business loans and loans for liquidation of prior debts. Generally, the loans are also not granted for working capital which is expected to be raised from the commerical banks, yet it favourably considers requests for portions of loan assistance for margin money required for raising such credit from commercial banks.

Criteria for Loans :

The corporation's approach is sympathetic and developmental and takes into account the following general criteria for granting loans to industrial concerns :

(i) Financial soundness of the scheme and its feasibility.

(ii) Availability of technical know-how and good management.

(iii) Marketability of the products.

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[3] Sec. 26 of *The State Financial Corporation Act*, 1951.

(iv) Profitability of the projects.

(v) Availability of essential service

(vi) Location of the plant.

(vii) Adequacy of available security.

Incidental and Legal Expenses :

All expenses in connection with the valuation of assets offered as securities, processing of the scheme, stamp duty registration charges etc. are borne by the borrowing concerns. Similarly the corporation charges legal expenses in connection with the examination of title deeds, vetting of mortgage deeds etc. These are dependent upon the amount applied for which is as follows :

Table 4.1

Expenses Charged from the Borrowers

Amount Applied for		Processing Fees	Legal Fees
	Rs.	Rs.	Rs.
Below	25,000	--	100
Between	25,000-1,00,000	--	150
"	1,00,000-2,00,000	150	500
"	2,00,000-5,00,000	300	750
"	5,00,000-10,000,00	750	1,500
"	10,00,000-20,00,000	1,000	1,500

Security and Insurance :

Loans are adequately secured by way of first mortgage of the entire existing fixed assets of the industrial concerns consisting of land, buildings and plant and machinery plus the fixed assets to be created with the loan. Non-industrial assets are not taken, barring the exceptional cases, as collateral. The corporation also advances loans on the guarantee of State Government, scheduled banks on the state co-operative banks.

The assets mortgaged to the corporation are required to be insured by the borrowing concerns during the currency of the loan upto their full value as assessed by the corporation at the time of the sanction of the loan with one or more of the insurance companies approved by it strictly in accordance with the limits fixed for each risk. The insurance policies are required to be taken in the joint names of the mortgager and the corporation. The borrowing units are required to keep the insurance policy alive during the currency of the loan. In case the borrowing unit fails to do so the corporation renews the policy at the cost of the borrowing units on due dates.

Commitment Levy

After the sanction of loan a period of six months from the date of sanction advice is allowed to prospective borrowers to comply with all the formalties and avial of the loan in full or in part after which a commitment levy @ ½% per annum upto a period of 3 months and thereafter @ 1% per annum upto a period

of 6 months will be charged. The corporation, can further extend the period, depending on the merits of each case, provided commitment levy is paid at the rate fixed by the corporation.

Disbursement :

The disbursements are made according to the progress made by the project at site. The plant, machinery and equipment are retired direct from suppliers by suitable arrangements with banks on matching contribution by the party. The revised pattern of disbursements link loans to performance and ensure proper utilisation of loans within proper time. In case the borrowing concerns have spent any amount for creation of fixed assets in implementing the project during the pendency of the loan application by arranging the same from their own resources or other sources, the Corporation favourably considers the reimbursement of such amounts.

Supervision and Control :

The Corporation does not interfere in the internal management of the borrowing concern, but it insists on keeping itself fully posted as to how the assisted concerns are progressing and to see that the loan is utilised for the purpose for which it is sanctioned. The Corporation, therefore, requires the borrowing concerns to send half-yearly progress reports to show how they are progressing in the matter of construction of buildings, installation of machinery, production etc.

The Corporation usually appoints a Director on the Board of Directors or Board of Management of the borrowing unit, if

it is needed. It insists on the submission of yearly accounts duly audited by a Chartered Accountant. Inspection assessment or valuation of the projects financed may also be undertaken at the cost of the borrowers. It also insists that there should be no change in the partnership, no payment of dividend and no return of unsecured borrowed money from the partners is made during the currency of the loan without its prior permission.

Period and Method of Repayment :

These are generally decided on the merits of each case depending on the profitability and net cash accruals of the borrowing units. Normally periods of repayments vary from 3 to 10 years after the expiry of the suitable gestation period which depends on the nature and condition of the industrial project. Repayments of the loans are linked to the profits and cash accruals and are required in such a manner that they do not burden the other sources of the concern.

Agency Loans :

The corporation is also acting as the Agent of the Government of ~~the~~ Uttar Pradesh for ~~the~~ disposal of loan applications received by the Directorate of Industries, Uttar Pradesh, under the 'Liberalised Loans Scheme' where financial assistance is provided to the small scale industrial units only. The Government places funds at the disposal of the corporation for sanction and disposal against requisite security after scrutiny of the

applications. The corporation grants loans renging between Rs. 15,000 and Rs. 1,00,000 under this scheme for creating fixed assets but in special circumstances the corporation also favourably considers the grant of working capital loans upto a certain percentage of the total loans granted to a concern. The borrowers under this scheme are required to pay legal fees @ Re. 1% per Rs. 100 for loans upto Rs. 25,000 and Rs. 150 for loans upto Rs. 1 lakh to the corporation for the examination of title deeds and vetting of mortgage deeds. Other charge like stamp duty, registration charges etc. will be paid by the borrowers to the authorities concerned.

The corporation grants the loan at 75% of the value of the tangible security offered which includes existing land, building, plant and machinery and similar block assets to be created out of the loan. The interest, charged under this scheme, payable half yearly, is 6% per annum for loans upto Rs. 50,000 and 7% per annum for loans above Rs. 50,000 but not exceeding Rs. 1,00,000. In both cases a rebate of 1% is allowed for prompt payment. This rate of interest is enhanced by 2% if the instalments of principal and/or interest due are not paid on the due dates.

The corporation expects the repayment in ten equal annual instalments the first instalment falling due for repayment two years after the disbursement of the first part of the loan. The loans granted for meeting the working capital requirements are repayable within three years only. The corporation was also

unning 'Cold Storage Scheme' under the agency agreement with he Agriculture Department of the U. P. Government. Recently it has started a 'Loans and Grants Scheme' to promote self-employment amongst young engineers and technicians. This scheme is also run under the agency agreement with the U. P. Government.

Chapter V

MANAGEMENT OF THE CORPORATION

The general superintendence, direction and management of the U. P. Financial Corporation vests in a Board of Directors which, with the assistance of an Executive Committee and a Managing Director, exercises all the powers and discharges all the functions which may be excercised or discharged by the corporation[1]. The Board of Directors comprises of ten members where four including the Chairman and the Managing Director are nominated by the U. P. Government and one Director each by the Reserve Bank of India and the Industrial Finance Corporation of India. The scheduled banks, the co-operative banks and insurance companies, the investment trusts and other financial institutions and other shareholders have been conferred the authority to elect one director each[2]. Thus this ratio between the nominated and the elected members of the Board has made it preponderatingly a body of the nominees. All major policy decisions including the sanction of corporation's loans above one lakh of rupees are taken by means of the resolutions duly passed at the meetings of the Board periodically held and conducted in consonance with the provisions of the Act[3]

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[1]Sec. 9 of The State Financial Corporation Act, 1951.

[2]Sec. 10 of The State Financial Corporation Act, 1951.

In order to assist the Board of Directors in the over-all superintendence, direction and management of the affairs of the corporation, there is an Executive Committee, consisting of four members, which may, subject to the directions of the Board, deal with any matter under the competence of the Board. The Managing Director of the corporation acts, ex-officio, as the Chairman of the said Committee. Of the other three members one is drawn from amongst the nominees of the U. P. Government, the other from the nominees of the Reserve Bank of India and the Industrial Finance Corporation of India and the third from the elected members of the Board respectively. The Executive Committee is entrusted with the power to sanction loans below Rs. 1 lakh under the Liberalised Loan Scheme and is thus designed to cut reduce the enormous work-load on the Board to a reasonable limit.

Table 5.1 gives the number of meetings of the Board of Directors and the Executive Committee held during a span of five years.

Table 5.1

Number of Meetings of the Board of Directors and the Executive Committee of the U.P. Financial Corporation

year! (1965-70)

Year	Board of Directors	Executive Committee
1965-66	11	10
1966-67	12	11
1967-68	10	16
1968-69	12	22

The number of meetings of both has increased over this period. Whereas the number of meetings of the Board of Directors has nominally ascended from 11 to 15 during the five years period in view, there appear a tremendous increase in the number of the meetings of the Executive Committee from 10 to 26. This is because of tremendous increase in the number of applications under the Liberalised Loans Scheme.

The Act contains provision for the appointment of advisory committees, in addition to the Executive Committee, to assist the corporation in the efficient discharge of its functions, especially for securing that those functions are exercised with due regard to the circumstances and conditions prevailing in, and the requirements of, particular areas or industries[4], but this has not been set-up as yet by the U. P. Financial Corporation.

The Managing Director appointed by the U. P. Government in consultation with the Reserve Bank of India is the immediate whole-time officer on the spot to perform such duties as the Board of Directors may, by regulations, entrust or delegate to him[5], who holds the office from 2-5 years in the corporation. The Managing Director takes the assistance of the General Manager, the Loan Officer, the Law Officer, the Assistant Secretary, the Technical

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[4] Sec. 21 of <u>The State Financial Corporations Act</u>, 1951.

[5] Sec. 17 of <u>The State Financial Corporations Act</u>, 1951.

Officer and the Accountant in the discharge of his duties of investing and lending the corporation's funds and augmenting them from time to time according to need.

The whole official organisation of the corporation is divided into nine sections and have been put under the control of above officers. The following chart provides a classified and clear glimpes of the corporation's organisational set-up :

Board of Directors

Managing Director | Executive Committee

Asstt. Secretary — Agency Loan Section
Loan Officer — Insurance Section
General Manager
Law Officer — Legal Section
Technical Officer — Post dis-bursement Section
Accountant — Account Section

General Manager:
General & Establishment Section
Corporation Loan Processing Section
Corporation Loan Disbursement Section
Refinance Section

Thus the Board, ~~being~~ as the supreme managing authority has delegated the responsibility to manage the affairs of the corporation to the Managing Director and the Executive Committee. The Managing Director delegates immediate control of four sections, viz. the general and establishment, the corporation loan processing

the corporation loan disbursement and the refinance, to the General Manager and the other five officers of the corporation are in charge of the insurance, the agency loans, the legal works the post-disburmement and the account section respectively.

<u>The General and Establishment Section</u> :

This section is under the direct control of the General Manager. The Assistant Secretary and the Loan Officer also share the responsibility of the General Manager in his absence. There is a superintendent directly responsible to the General Manager who supervises after the work of his assistants, steno, typist, duplicator, dispatcher and daftari. This section attends to correspondence, receiving mail and its distribution to the various sections, procures necessary furniture and office material, recruits staff for the corporation and makes arrangements for the meetings of the Board or the Executive Committee. The organisation of this section is given below :-

General Manager

Or

Assistant Secretary

Or

Loan Officer

Steno | Superintendent | Senior Typist

Assistants | Typist | Duplicator | Dispatcher | Record Keeper

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General Manager

Or

Assistant Secretary

Or

Loan Officer

Steno | Superintendent | Senior Typist

Assistants | Typist | Duplicator | Dispatcher | Record Keeper

The section carries out its work by means of a fair division of responsibilities amongst its employees.

The Corporation Loan Processing Section :

This section acts under direct supervision of the General Manager and is primarily responsible for processing th loan applications for amounts above Rs. one lakh. The processi certains formulation of check list, making relevant queries pertaining to loans applied for and for preparation of Managin Director's note to be submitted to the Board for final decisio The following chart expalins the organisation of this section :

General Manager

Superintendent (to process application between Rs. one to two lakhs)

Superintendent (to process application between 2 to 5 lakhs)

Superintendent (to process application between 5 to 20 lakhs)

Typists

Assistants

These superintendents after receiving respective appli cations prepare the checklist and correspond with the party concerned regarding the informations wanting. After ascertainin the credit standing from the party's bank and if prime facie fo suitable the case is referred to the approved technical expert the section. After receiving requisite informations and favour

report from such technical expert the matter is referred to th Assistants Technical Officer. Sometimes the party in view is also called upon to discuss the practicability of the project i desires to undertake. After a favourable response from all sid a memorandum for the Board is prepared in the section under the direct supervision of the General Manager. It is presented bef the Managing Director for appropriate recommendation before it goes to the Board for final decision.

Corporation Loan Disbursement Section :

This section also acts under the direct supervision of the General Manager & Loan Officer and is responsible for comple ing all formalities preceding the disbursement of the loans, sanctioned by the Board. Its organisation is as follows :-

Corporation Loan Disbursement Section

General Manager
(Above Rs. two lakhs)

Loan Officer
(Below Rs. two lakhs

Superintendent

Typists

Assistants

The purview of this section begins just after the lega formalities are complied with by the party as per the instruct of the 'legal cell' of the corporation. It prepares 'First Pa ment Note' for releasing the first instalment of disbursement a also prepares 'Subsequent Notes' for release of subsequent inst ments. This section attends to the correspondence with the par after it has completed all legal formalities till the whole sanctioned amount is disbursed or adjusted.

Agency Loan Section :

This section is responsible for considering the loan applications from small industrial units duly forwarded by the Directorate of Industries to the corporation. It carries out final processing of the applications thus received, because initial processing is done by the Directorate of Industries itse It also prepares 'Committee Note' which is submitted to the Executive Committee for the final decision. This is, at present under the direct supervision of the Assistant Secretary of the corporation. The organisation of this section is as follows : -

Assistant Secretary
- Stenotypists
- Superintendents
  - Assistants
  - Typists
- Steno

Are they of equivalent ranks with Superintendents?

This is another big section in the whole office organi: tion of the corporation. After the applications have been sanc ioned by the Executive Committee, the party concerned is inform regarding terms and conditions of the sanctioned loan. After th sanction document file is sent to the 'Legal Cell' from where i goes to the 'Disbursement Section' and ultimately to the 'Post-Disbursement Cell' after the disbursement of the loan. This section also attends to various correspondence with the party regarding their loans.

Account Section :

The Accountant is incharge of this section and with the help of superintendents, assistants, steno, typists and cashier he performs following functions :-

1. Cash arrangement for Corporation's Loan Scheme, Directorate of Industries Loan Scheme and Cold Storage Scheme.

2. Maintaining statutary books and accounts registers.

3. Borrowings from public, financial institutions or Government.

4. Submission of income tax and surtax returns.

5. Investment of surplus funds of the corporation.

6. Scrutiny and payment of travelling allowance or over-time bills of the employees.

7. Attending to the Government or corporation audit proceedings.

Thus the preparation of cheques for disbursement, opera ing bank account, finding out ways to raise finance, collection cheques by way of repayment, issuing notices to the parties who amount becomes due, maintaining account books, preparing annual reports of the corporation are various duties assigned to this section.

Following is the organisational set up of this section

Accountant

- Cashier
- Steno Typis
- Superintendent Liberalised Loan Scheme
  - Clerks
  - Junior Assistants
- Superintendent Corporation Loan Scheme
  - Clerks
  - Junior Assistant
  - Senior Assistant
- Superintendent Cold Storage Loa Scheme

<u>Legal Section</u> :

This section, which has been put under the direct control of Law Officer, is responsible for attending to all legal formali ties the corporation has to complete during course of its busine All responsibilities of a legal nature right from the preparatio of terms and conditions for granting loan upto conducting cases filed by or against the corporation in the courts of law, fall

within the domain of this section. This section is responsible for following types of work :-

1. Examining the documents of Title Deeds and preparation of reports for the same to be submitted to the Managing Director.

2. Preparation of draft document such as Mortgage De Guarantee Deed etc., to be sent to the borrowers.

3. Payment of the Stamp Duty on all such documents.

4. Ensuring the compliance of all legal formalities and execution of Mortgage Deed at Kanpur, Ghaziabad Varanasi.

5. Collection of Mortgage Deeds after registration.

6. Maintaining Title Deed Register, Document Register etc.

7. Returning the Title Deeds and other related documen to the parties concerned after full repayment of the loan.

8. Attending to legal works at branches.

Allocation of duties in this section can be explained with the help of following chart :-

Law Officer

Deputy Law Officer

Typists

Steno typists

Superintendent (Corporation Loan)

Superintendent (Agency Loan)

Assistants

Refinance Section :

After the merger of the Refinance Corporation for Indus' ries Ltd. with the Industrial Development Bank of India the Sta Financial Corporations also availed this facility of refinance in respect of financing of certain category of industrial units. The Corporation has set up one section to look after all formali ties in this regard under the supervision of the General Manager Out of the total loans sanctioned, loans to some special industr ial units are taken up and along with disbursement of original loans this section approaches the Industrial Development Bank of India for refinance. The organisation of this section is as follows :-

General Manager

Superintendent

Assistants — Typists

It is a small but very important section in the whole organisation of the corporation. The number of industries getti refinance facility has been very limited, hence, at present its scope is not so wide.

Post-disbursement Section (P. D. Cell Or Technical Cell) :

This section is responsible for attending all formalitie after the disbursement of the sanctioned loan. It is also conce ed with all sorts of inspections namely pre-sanction, predisburs

and post disbursement inspections, usually undertaken by the corporation. In course of pre-sanction inspection this cell determines the technical feasibility of the projects and partic larly its determines :-

(a) Adequacy of Land.

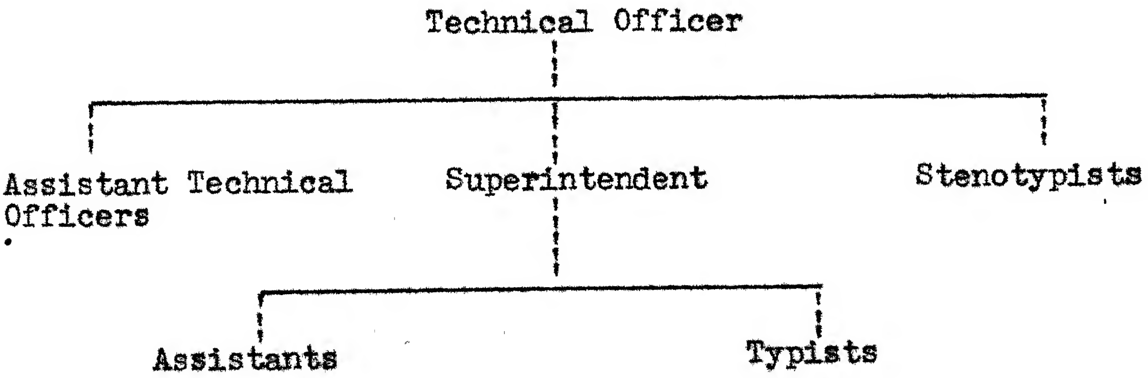
(b) Appropriateness of the Building.

(c) Working Capital Requirement.

(d) Profitability of the Project; and

(e) Marketability of the Product.

After the inspection, a report for the same is submitted to the Managing Director of the corporation. This section also organises predisbursement and post-disbursement inspections from time to time to assess the creation of assets and the progress o: the project. After the full disbursement borrowing units are kept under constant watch to determine the maintenance of the assets, implementation of the scheme and progress of production and sales. Work allocation in this section is as follows :-



There are five Assistants Technical Officers who are mechanical and civil engineering graduates and are responsible for determining the technical feasibility of the proposed projec

Insurance Section :

The properties mortgaged with the corporation as securit are required to be insured at the cost of the party. In case party fails to take insurance from the insurance companies, the corporation itself gets them insured and the expendes are debitec to the accounts of the borrowing parties. The corporation has fixed a limit that 75 percent of the property or more should be insured with the Life Insurance Corporation of India and rest sho be insured with other approved insurance companies.

The insurance section is put under the direct control of the Loan Officer who is assisted by a superintendent. The work allocation is as follows :-

Loan Officer

Superintendent

Assistants　　　Typists

This section assures that the insurance policy is taken in the joint name of the corporation and the party. It also sees that the policy is renewed within appropriate time at the cost of the party. This section carries on continuous check on the policy

and the value of the policy is adjusted to the value of property determined by the Assistant Technical Officers from time to time In case of any damage the amount realised from the insurance company is given to the party with instruction to instal similar assets of the same worth.

Recovery Section :

Recovery of the loans has been entrusted to the account section but increasing defaults prompted the corporation to estab lish another cell within the organisation primarily meant for the collection of overdue instalments. This cell is still at its infancy. There is only one inspector in this section who tours from place to place to collect the amount from the parties concern ed. He is just like 'Takadia' generally employed by concerns having dealings in credit.

Branch Organisation :

There are two branches of the corporation one at Ghaziabad and other at Varanasi. There are managed by the Branch Managers who are assisted by assistants and typists. These branches are to look after the financial requirement of the industrial units of eastern and western districts of Uttar Pradesh. Their work is to receive applications, carry on primary scrutiny and send them to the head office for final scrutiny and decision.

The total number of employees on the pay roll of the corporation was 106 in all in various capacities. All the employ

of the corporation are devided into three categories namely 'A' 'B' and 'C' categories. There were 32 employees in the A class 56 employees in 'B' class and the remaining 18 employees in 'C' class upto March 1970[6]. Various categories of employees are getting various grades.

'A' grade employees were getting salary between 200-450 to 1300-1800 per months. Similarly 'B' grade employees were getting between 80-140 and 160-320 per month depending on the designation. 'C' grade employees were getting between 55-75 and 60-80 per month[7].

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[6]See Appendix F.

[7]See Appendix G.

Chapter VI

FINANCIAL RESOURCES OF THE CORPORATION

Since the genesis of development banking has been, by and large, a postwar phenomenon, the precepts and practices pertaining to their administration, financial structure and functioning are undergoing the process of evolution, experimentation and henc change. These institutions have yet to evolve traditions and develop organic links with other limbs of capital market before they can be accepted as organisations designed to fill a long-felt niche in their area. The State Financial Corporations being no exceptions to these general observations, have to draw their financial apparatus wholly from the express provisions of the statute instead of traditions made and moulded by the efflux of time. The twin financial sources of the Uttar Pradesh Financial Corporation envisaged under the Act are obviously concerned with ownership and borrowing. The ownership sources comprise primarily of share capital, reserves and funds while borrowing include deposits from the public, issue of bonds and loans from Governments and other financial bodies.

Share Capital :

The authorised capital of the corporation is Rs. 3 crores divided into 3 lakhs shares of Rs. 100 each. Upto the end of March 1970 the corporation issued 1,85,000 shares, which were full subscribed paid up. The shares of the corporation can be subscril by the public to the extent of 25 percent and rest is subscribed

by the Government of Uttar Pradesh, the Reserve Bank of India, the Scheduled Banks, the Co-operative Banks, the Insurance Companies and other financial institutions. The ratio of subscription of each of the above categories of the shareholders will be determined by the State Government in consultation with the Central Government. On 31st March 1970 the subscription of shar has been as follows :-

Table 6.1

Shareholders of the Corporation

Shareholders	No. of Shares Held	Percentage
The State Government	1,40,360	75.9
The Reserve Bank of India	15,000	8.1
Scheduled banks, Co-operative banks Insurance Companies, Investment trust and other financial institutions	27,096	14.6
Individuals	2,544	1.4

The initial share capital of the corporation was Rs. 1,00,00,000 divided into 1,00,000 shares of Rs. 100 each fully-paid up. The subscriptions of other parties were the same as at present but the subscription of the Uttar Pradesh Government was only to the extent 55,360 fully paid-up shares. The Government of Uttar Pradesh subscribed fully 45,000 shares during 1966-67, 25,000 shares during 1967-68 and 15,000 shares during 1968-69 which were

issued by the corporation. This raised the subscription of the government to the present level. The shares of the corporation other then those subscribed by the public can not be transferred except to the U. P. Government and the Reserve Bank of India or any other financial institution recognised in this behalf by the Government of Uttar Pradesh. The shares of the corporation are to be regarded as Trustee Securities under the Indian Trust Act 1882 and as Approved Securities as per the Indian Banking Companies Act, 1949.

Thus a large part of the total shares issued originally and subsequently has been subscribed fully yet this source is not fully exhausted as there is still a balance of Rs. 1.15 crores in the authorised capital of the corporation which can be issued at any time.

Retained Earnings :

Section 35 of the State Financial Corporation Act, 1951 has authorised the corporation to transfer some part of its earnings to General Reserve Fund till it becomes equal to the paid-up capital of the corporation. This ~~includes~~ (a) General Reserve (b) Special Reserve and (c) Reserve for Bad and Doubtful Debts. There is also a Special Reserve Fund constituted (under section 35-A of the State Financial Corporation Act, 1951) by the amount of dividend foregone by the State Government and the Reserve Bank of India. All of them represent the portion of profit earned and

retained by the corporation. The total amount of the retained earnings upto 31st March 1970 is Rs. 24.58 lakhs which has come from the following sources :-

Table 6.2

Retained Earnings of the Corporation

(Rs. in lakhs

Particulars	Amount	Percentage
General Reserve	1.11	4.4
Special Reserve (under Income Tax Act)	14.92	60.6
Reserve for Bad & Doubtful Debts	0.15	00.6
Special Reserve Fund	8.40	34.4
Total	24.58	100

The Special Reserve created under the Section 36 (1) (viii) of the Income Tax Act, 1961 has contributed even more than three-fifths of the total reserve but that is not going to provide finance to the corporation as that along with the Reserve for Bad and Doubtful Debts is created to meet the future liabilities for income tax and future losses on account of bad debts respectively. The General Reserve and the Special Reserve Fund are the real retained earnings which provide finance to the Corporation. The following table explains the contribution of retained earnings along with the rate of its growth over a period of eight years.

Table 6.3

Contribution of Retained Earnings

(Rs. in lakhs)

Year	General Reserve	Special Reserve	Total Amount	Rate of Growth
1962-63	.60	1.05	1.65	--
1963-64	.80	2.10	2.90	1.76
1964-65	.85	3.15	4.00	1.38
1965-66	.85	4.20	5.05	1.26
1966-67	.95	5.25	6.20	1.23
1967-68	1.05	6.30	7.35	1.18
1968-69	1.07	7.35	8.42	1.14
1969-70	1.11	8.40	9.51	1.12

The total funds available from this source have been increasing continuously and during the period from 1963 to 1970 it has gone up nearly six times but the rate of growth over this period has witnessed a continuous decline. The Special Reserve created by the amount of dividend foregone by the U. P. Government and the Reserve Bank of India, has been constant throughout this period. The contribution to the General Reserve Fund has been varying from year to year which has been more than ten thousand previously and less than that during recent years. The corporation has been getting over Rs. one lakh to finance its activities every year from this source unlike the share capital, the retained earnings are regular source of funds for the corporation.

Repayment of Loans :

This source indicates conversion of assets of the corpo[r]a-tion into the liquid funds. Loans granted by the corporation are generally repaid within a period of seven to twelve years. Amou[nt] which stands in the balance sheet as loans and advances is conve[r]-ted into cash on repayment of the loan. Following table indicat[es] yearly contribution of repayment of the principal to the total resources of the corporation :-

Table 6.4

Position of Repayment of Loans

(Rs. in lakhs)

Year	Amount Rs.	Cumulative Total Rs.	Index No.	Rate of Growth
1962-63	17.22	60.15	100	--
1963-64	17.22	77.36	100	1.28
1964-65	24.87	102.24	144	1.32
1965-66	25.97	128.20	151	1.25
1966-67	26.26	154.46	153	1.20
1967-68	37.64	192.10	219	1.24
1968-69	32.16	224.26	187	1.17
1969-70	46.75	271.01	271	1.21

Repayment of Loans :

This source indicates conversion of assets of the corpora tion into the liquid funds. Loans granted by the corporation are generally repaid within a period of seven to twelve years. Amount which stands in the balance sheet as loans and advances is conver ted into cash on repayment of the loan. Following table indicate yearly contribution of repayment of the principal to the total resources of the corporation :-

Table 6.4

Position of Repayment of Loans

(Rs. in lakhs)

Year	Amount Rs.	Cumulative Total Rs.	Index No.	Rate of Growth
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1963-64	17.22	77.36	100	1.28
1964-65	24.87	102.24	144	1.32
1965-66	25.97	128.20	151	1.25
1966-67	26.26	154.46	153	1.20
1967-68	37.64	192.10	219	1.24
1968-69	32.16	224.26	187	1.17
1969-70	46.75	271.01	271	1.21

The repayment of the loan has increased continuously but for a little set back during the year 1968-69. The index number has gone up nearly three times over this period. The rate of growth of total repayment has varied along a declining trend whic is roundabout 1.24. In the beginning the rate of growth was higher than this average but from the year 1964-65 it showed a declining trend. This is another regular source of funds to the corporation which has contributed significant amount to the total finances from year to year.

Refinance :

It is a new scheme implemented by the Industrial Development Bank of India which was originally started by the Refinance Corporation for the Industries Ltd.. Under this scheme the corpor tion gets refinance of the amount disbursed in respect of loans sanctioned to certain categories of industrial units. On the application of the corporation the Bank grants refinance which is certain percentage of the total amount disbursed. This enables the corporation to get funds and links the repayment of loans granted with the repayment of refinance. Under such circumstances the corporation is not required to wait for release of funds till the whole amount is repaid by the borrower. The position of this source is as follows :-

Table 6.5

Position of Refinance Obtained from the Industrial Development Bank of India

(Rs. in lakhs)

Year	No. of cases referred	No. sancti-oned	Amount sancti-oned	Total amount availed upto	Amount Repaid	Amount Out-stand-ing	Rate grow
1965-66	4	--	--	--	--	--	--
1966-67	6	2	14.03	14.03	--	--	1
1967-68	5	1	8.00	22.03	--	--	1.57
1968-69	10	12	38.17	35.61	1.25	34.36	1.61
1969-70	40	24	98.11	85.51	15.88	69.63	2.40

This is a new source and effective only since 1966-67 and has contributed an increasing amount to the total finances of the corporation. The rate of growth of this source has been increasing continuously. The Industrial Development Bank of India (IDBI) is also following liberal terms in sanctioning refinance which has induced the corporation to take maximum possible benefits from this facility. The rising trend at a relatively higher rate during recent years has given new hope for greater contribution of this source in future.

Borrowings:

Borrowings may take either of the two forms namely 'Public Borrowings' by issue of bonds and debenture or acceptance of deposits and 'Institutional Borrowings' by taking loans from the

is authorised to issue bonds and debentures to supplement the resources but the funds raised through this source can never exceed five times of the paid-up capital and reserve fund. So far the corporation has issued five series of bonds and debenture Far the first time in the year 1958 the Corporation issued debentures worth Rs. 54,82,500 which were repaid during the year 1967-68 Following table shows the issue of bonds and debentures by the corporation :-

Table 6.6

Series of Bonds Issued by the Corporations

(Rs. in lakhs)

Series	Bonds Issued Year	Bonds Issued Amount	Bonds Repaid Year	Bonds Repaid Amount	Outstanding Amount	Repayable During
First Series	1958	54.82	1968	54.82	Nil	1968
Second Series	1962	53.00	1969	5.17	47.83	1972
Third Series	1965	50.00	--	--	50.00	1977
Fourth Series	1967	50.00	--	--	50.00	1978
Fifth Series	1970	54.88	--	--	54.88	1981

Thus the corporation has augmented the resources by issuing bonds from time to time and towards the end of March 1970 the total amount outstanding under this head stood at Rs. 202.71 lakhs. The rate of interest in respect of these bonds has varied from 4½% in respect of first and second series to 5¾% for the third and fourth series and 6 percent for the fifth series. All

these bonds are guaranteed for the repayment of principal and payment of interest by the U. P. Government.

Amount borrowed from the Reserve Bank of India has been either secured by the pledge of Government Securities or by the ad-hoc bonds issued by the corporation under the guarantee of the U. P. Government. The U. P. Government also provides loan to the corporation from time to time on easy terms. The total borrowings are as follows :-

Table 6.7

Borrowing of the Corporation

(Rs. in lakhs)

Year	Bonds and Debentures		Institutional Loans		Total Amount	Index Number
	Amount	%	Amount	%		
1962-63	101.82	100	--	--	101.82	100
1963-64	99.18	100	--	--	99.18	98
1964-65	95.02	68	44.50	32	139.52	136
1965-66	145.02	79.	39.20	21	184.22	180
1966-67	195.02	93	15.00	7	210.02	206
1967-68	195.02	82	48.00	18	243.02	238
1968-69	147.83	67	71.83	33	219.66	216
1969-70	202.71	69	92.37	31	295.08	290

The table states that the corporation was depending mainl on public loans under this source upto the year 1963-64. After that the Reserve Bank of India and the U. P. Government started granting loans to this corporation. Even upto now the institutio loans have contributed less than one-third of the total loaned finance, which was even less than one-fifth, one-tenth during certa years. The total loaned finance have gone up nearly three times during this period. The relative position of public borrowings has witnessed a hectic declining trend both absolutely and relatively.

Public Deposits :

The corporation is authorised to accept deposits from the public repayable after the expiry of at least five years but the total amount of the deposit will never exceed the paid up capital of the corporation. Uptill now it has not accepted any deposit.

State Government Grants :

Apart from sanctioning loans out of its own funds the corporations has also been running certain schemes under the agency agreement with the U. P. Government for sanctioning loans to certain ~~specific~~ specified categories of industrial units in the state. These schemes are 'Liberalived Loans Scheme' (LLS), and Cold Storage Loan Scheme (CSL) which were previously run by the U. P. Government. Recently, 'Loans and Grant Scheme' has also been added to the above list. The U. P. Government from time to time provides various grants to run these schemes. The corporation

deposits the amount of these grants in a separate bank account and can not use it for running its own loans scheme. The corporation sanctions loans under those schemes from such funds and the principal as well as interest are refunded on their repayment to the U. P. Government. Following is the position of grants given by the U. P. Government :

Table 6.8

<u>Position of Grants and their Refund</u>

(Rs. in lakhs)

Year	Liberalised Loan Scheme		Cold Storage Loan Scheme		Total Outstanding
	Funds placed	Refunded	Funds placed	Refunded	
1956-57	65.00	--	--	--	65.00
1957-58	--	--	--	--	65.00
1958-59	--	--	--	--	65.00
1959-60	10.00	--	--	--	75.00
1960-61	25.00	--	--	--	100.00
1961-62	69.16	8.60	10.00	--	170.56
1962-63	--	--	--	--	170.56
1963-64	--	12.60	--	--	157.96
1964-65	--	6.88	4.00	--	155.08
1965-66	--	7.31	--	.36	147.41
1966-67	17.00	7.20	18.00	.30	174.91
1967-68	27.11	8.54	40.00	.81	232.67
1968-69	35.50	10.66	--	--	257.51
1969-70	64.00	10.13			

The Government has placed these funds at the disposal of the corporation to sanction loans to small industrial units and units engaged in preservation of agricultural products. Towards the end of March 1970 there stood more than Rs. 307.49 lakhs outstanding with the corporation, out of which Rs. 240.85 lakhs was in respect of 'Liberalived Loan Scheme' and Rs. 66.64 lakhs in respect of the Cold Storage Scheme. Taking into account the funds placed with the corporation under 'Cold Storage Scheme' and the amount of disbursement it reveals a paucity of funds to the extent of Rs. 11.53 lakhs which was managed out of the corporation's own funds.

This has been the aggregate position of funds from all sources upto the end of March 1970. The yearly position can be studied with the help of 'Fund Flow Statement' which enlists various sources and uses of funds during particular period. This also helps in studying the relative importance of each source and their trend over a period of recent five years.

Table 6.9

Fund Flows Statement for the Corporation

(Rs. in lakhs)

Sources of Funds	1965-66 Amount	1965-66 %	1966-67 Amount	1966-67 %	1967-68 Amount	1967-68 %	1968-69 Amount	1968-69 %	1969-70 Amount	1969-70 %
Internal Sources :										
Funds from operation	6.20	6	7.68	5	10.99	9	10.64	8	7.12	4
Repayment of the loans received	25.97	27	26.25	17	37.64	32	32.16	24	46.75	25
Decrease in assets	0.06	1	--	--	--	--	32.02	24	18.17	10
Total Internal Sources	32.23	34	33.93	22	48.63	41	74.82	56	72.04	39
External Sources :										
Shares Issued	--	--	45.00	28	25.00	22	15.00	11	--	--
Long-term Loans	50.00	51	79.03	50	41.00	36	36.16	27	--	--
Short-term Debts	14.36	15	--	--	0.96	1	7.87	6	115.15	61
									--	--
Total External Sources	64.36	66	124.03	78	66.96	59	59.03	44	115.15	61

(Contd.)

(Contd. Table 6.9)

Sources of Funds :	1965-66		1966-67		1967-68		1968-69		1969-70	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	
Total Sources	96.59	100	157.96	100	115.59	100	133.85	100	187.19	10
Index Numbers	100		163		119		138		193	
Use of Funds :										
Repayment of Borrowed Funds	5.30	5.5	51.56	32.6	--	--	47.19	35	9.35	5
Increase in Assets	5.37	5.6	37.62	23.8	50.89	44	5.79	4	13.01	7
Payment of Dividend	3.50	3.6	3.50	2.2	3.89	3	5.07	4	5.99	3
Disbursement of the loans	82.42	85.3	65.28	41.4	60.81	53	75.81	57	158.85	85
Total uses :	96.59	100	157.96	100	115.59	100	133.86	100	187.19	100

The total sources of funds as per the 'Funds Flow Statement' have been grouped as internal and external sources where the internal sources include funds from operation, repayment by the borrowing units and reduction of its other assets. The former two sources are making regular contribution which fluctuated betwe 22% to 41% over the period under consideration. The latter source in this category has been irregular but its contribution has also gone up even upto 24% during the year 1968-69. Over all contribution from internal sources various between 22% to 56%, the avera being 38.2% of the total sources of funds but has fluctuated from year to year exhibiting a rising trend over this period.

The external sources on an average contribute 61.8% of the total sources of funds which fluctuates between 44% to 78% of the total sources of funds over the period under consideration. This includes share issues, long-term borrowing from the U. P. Government, the Reserve Bank of India, the Industrial Development Bank of India and by issuing bonds and debentures and taking short term loans. In this category the long-term borrowings are the regular sources of funds, which, on an average, contribute 45% of the total source of funds but varies between 27% to 61% over this period. Share issues and short term debts provide significant amount, although irregularly, to the total funds of the corporation.

The total resources of the corporation have witnessed a rising trend which have gone up even upto 193% but such an increa

has not been constant as the index numbers exhibits a rise and fall over this period.

Funds raised from above sources have been mainly utilized for disbursement of the loans sanctioned by the corporation as more than two-fifths and during a few years even 85% of the total out flow of funds have been used for this purpose. The average out flow for this purpose is 64% of the total flow of funds which varies between 41 to 85 percent over this period. The other uses of funds include repayment of borrowed funds, increase in assets and payment of dividend where the repayments of loans from various sources involves a significant sum of the total outflows from the corporation. The other two uses of funds are not so significant yet very regular.

Thus the financial activity of the corporation has been increasing over this period and it serves as a financial intermidiary in the financing of the industries because in order to finance the disbursement it mainly depends upon the borrowed funds from various sources.

Chapter VII

PROCEDURE FOR SANCTION AND DISBURSEMENT

The corporation grants loans out of its own funds as w as the funds placed at its disposal by the Government of Uttar Pradesh under liberalised loans schemes. Procedures followed fo sanction in respect of both these types of loans are similar although handled separately by different sections of the corpor tion. The applications for loans varying from one to twenty la are processed by the 'Corporation Loan Processing Section' of the corporation. The corporation has prescribed three applicat forms : (i) 'Form A' for loans between Rs. 1,00,000 - 2,00,000 (ii) 'Form B' for loans between 2,00,000 -- 10,00,000 and (iii) 'Form C' for loans between Rs. 10,00,000 -- 20,00,000.

The application for a loan should be in the prescribed form applicable to it and should be addressed to the Managing Director of the corporation. If the borrowing units are new unde takings among the scheduled industries under the Industries (Development and Regulation) Act, 1951 the borrowers should get the scheme approved by the Ministry of Commerce and Industry, Govern ment of India. They are also required to complete the formaliti for obtaining a licence for the establishment of ~~the~~ industrial units. The licence for importing plant and machinery has to be obtained and the consent of the Controller of Capital Issues, Go ment of India, should be secured beforehand, if the borrowing un

company for the issue of shares and debentures.

The General Section of the corporation, after receiving the application forms along with other documents duly filled by the Borrower, forwards them to the 'Corporation Loan Processing Section'. Each application contains, more or less, following types of informations :

1. History and constitution of the borrowing unit.

2. Management, capital structure and borrowing powers.

3. Informations for the project regarding technical or financial collaborations; manufacturing process; capacity and output; location and particulars of land; buildings; construction; equipment; raw materials; public utility services; operating organisation; cost of the project; and means of financing.

4. Marketing of the product including; market trends; competitors; commercial prospects; and sales organisation.

5. Cost of production, profitability etc.

In all, the corporation demands nearly thirty-five informations regarding the above matters. It provides seven annexures with the application form which intends to furnish detailed informations regarding balance sheet, profits and loss account, statement showing capacity of production, sales etc. of major products, capital cost of the project, means of financi estimates of working results and cash flow statement over previous years. The borrowing party also discloses the name of

its bankers and authorises the corporation to discuss its c standing with the bank.

Recently the corporation has introduced two more a cation forms for transport and hotel industries. The corpo tion has started financing transport agencies for purchasin less than three trucks. Similarly it provides finance to ce category of hotels constructed in the country under the dire ions of Ministry of Tourism and Civil Aviation.

On receiving the application, of the 'Corporation L Processing Section' scrutinises it to see that borrowing uni is eligible[1] to take the loan from the corporation.

In case the application is from the eligible indust units, a 'Check List' is prepared which verifies the informa

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[1]The following industries have been declared as 'nc eligible' for the financial assistance from the corporation

(a) Khand-sari Units

(b) Rerolling Mills

(c) Rice & Dal and Flour Mills

(d) Hotel which do not come at least under '3 stars classification.

(e) Oil Mills established after 1962

(f) Repair work-shops

(g) Garrages

(h) Restaurants

(i) Cinemas.

mentioned in the application forms and side by side suggest the deficiency of information, if any. Check list is a brie note of all informations mentioned in the application forms most of them are mentioned in 'yes' as 'no'. It also verifi receipt of various documents along with the application. Th unfurnished informations are called for form the party. The corporation also demands the processing fees which may be se by the Money Order, Crossed Cheque or Bank Draft payable to corporation and informs the party its unability to entertain application unless the said fees is realised. Meanwhile, if the party faces any difficulty in submitting any information document, it may approach the corporation and get the proble discussed with the officers concerned.

The corporation also obtains information regarding credit standing of the borrowing unit from its bank. The ca is also referred to the approved technical experts[2] for the

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[2]The corporation has appointed few technical expert in respect of the following industries :-

(i) Pulp and Paper
(ii) Ceramics an Minerals
(iii) Fermentation Industries
(iv) Oil and Solvent Extraction Industries
(v) Plastic & Allied Industries
(vi) Heavy chemicals and Fine Chemicals
(vii) Food & Allied Industries
(viii) Sugar Industry
(ix) Electrical Engineering
(x) Mettalurgical Industries
(xi) Mechanical Engineering
(xii) Leather and Allied Industries
(xiii) Textile Industries
(xiv) Electronics.

preliminary technical appraisal of the proposed project.

In the case of other industries the Managing Di is authorised to refer the case to any of the expert whom considers suitable and take 'expost facto' approval of th Board. Sometimes suitable cases are also referred to the National Industrial Development Corporation (NIDC). Thes experts have been drawn from the Indian Institute of Tech Directorate of Industries, Government Leather Institute, Government Textile Institute Kanpur. After a preliminary investigation they submit their report to the Managing Di of the Corporation.

After getting favourable report from the technic expert and the bank and the desired additional informatio the party the case is referred to the 'Technical Cell' of corporation to undertake thorough investigation in respe of the technical feasibility of the project. The Assista Technical Officer will visit the site of the project and assess its requirement for raw material, power, fuel, mac land, building, labour etc. and submits the report to the Managing Director or the General Manager of the corporati The report, if favourable, is handed over to the 'Corpora

Loan Processing Section' which prepares a memorandum for t Board.[3]

This draft of memorandum for the Board is presen before the Managing Director for his study and recommendat The draft memorandum alongwith the recommendation is cyclo and is sent to every Director before the meeting of the Bo After that in the meeting of the Board it is discussed and decision is taken in this regard.

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(i) Introduction.

(ii) Management of the borrowing unit.

(iii) Introduction of project containing particula the project; procurement of plant and machin procurement of land; construction of factory

(iv) Manufacturing process.

(v) Production Schedule.

(vi) Availability of the essential services i.e. p water, labour, transport etc.

(vii) Availability of raw material.

(viii) Total cost of the project and comments on it.

(ix) Financial proposals and comments on it.

(x) Cost of production and profitability.

(xi) Technical viability.

(xii) Markets and selling arrangements.

(xiii) Debt equity ratio.

(xiv) Secutity its nature and value.

(xv) Mode of disbursement.

(xvi) Recovery schedule.

(xvii) Terms and conditions.

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(xv) Mode of disbursement.
(xvi) Recovery schedule.
(xvii) Terms and conditions.

In case the application is sanctioned the corporation will send a 'Sanction Advise'[4] indicating the amount sanctioned accepted use thereof and security offered along with other terms and conditions to the party. There are three sets of terms and conditions. One is applicable to the sole proprietory concerns[5], other is for partnership firms[6] and still other is meant for joint stock companies and co-operative societies[7]. The terms and condition are in the printed form which is attached to the sanction advice with a slight modification, if necessary in individual cases. The party has no obligation to accept these terms and conditions in total but it is at liberty to write to the corporation regarding alteration or dropping of any of the terms and conditions.

Disbursement :

After the sanction certain post - sanction but pre-disbursement legal formalities are to be observed by the party as per instructions of the corporation before it can avail of the funds for ~~its~~ project. Act of releasing the sanctioned loan by and by to the party is called disbursement. The 'Loan Processing Section' hands over the file to the Disbursement

[4]See Appendix I

[5]See Appendix J

[6]See Appendix K

[7]See Appendix L

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[4]See Appendix I

[5]See Appendix J

[6]See Appendix K

[7]See Appendix L

Section. The 'Legal Cell' is also advised to open a file in the name of the party and to see that the party is complying with legal requirements.

The party, after getting the sanction advice, may write to the corporation for alteration of certain terms or for entire elimination of certain undesirable conditions from the list of terms and conditions. The corporation always welcomes such correspondence to come at such terms and conditions which are agreeble to the borrowing unit. Amendment in the terms and conditions is done by the Managing Director of the corporation who thereafter obtains the confirmation of the Board. Amendments generally sought are in respect of security, rate of interest, mode of disbursement or repayment etc. The information regarding accepted amendment is sent to the party as well as 'Legal Section' by the 'Disbursement Section' of the corporation.

After this agreement the 'Legal Section' is advised to complete rest of the legal formalities. The 'Legal Section' takes first step in this direction by sending a letter to the party asking for the following documents for the preparation of the Mortgage Deed :

1. Details of the property offered as security along with its value.

2. Title Deeds and Lease Deeds in original pertaining to properties to be mortgaged as security.

3. Certified plans of the land and building proposed to be mortgaged, and plans of the proposed constructions sanctioned by the local authorities.

4. Mutation certificate and certified copy of Assessment Register and the latest housetax and water tax receipt from the local authorities.

5. In case the factory building is to be raised on the agricultural land, no objection certificate from the Sub-Divisional Officer concerned.

6. A certificate of non-encumbrance from an advocate for a period of twenty years in respect of the properties offered as security.

7. A list of plant and machinery certified by the applicant, giving cost price, year of purchase and depreciated value of each item along with an affidavit under the seal of Ist class Magistrate or a Notary Public stating that the plants and machineries detailed there in are free from encumbrance, order of attachment or injunction from any court.

8. In case the existing plants and machineries are installed in a rented building full details in respect thereof.

9. If the loan is to be guaranteed by sureties, letters from the banker of the sureties regarding their means and credit standing or documents of title pertaining to their properties.

10. In case of partnership firms, the partnership deed alongwith 'Registration Certificate' in original along with its copy duly attested by a Government Gazetted Officer under his official designation and rubber stamp.

11. In case of Joint Stock Companies, an authenticated copy of the Articles and Memorandum of Association of the company signed by the chairman under the common seal of the company alongwith certificates of Incorporation and Commencement of Business original as well as copies thereof duly attested by a Government Gazetted Officer under his official designation and rubber stamp. The companies are also required to submit a resolution authorising the raising of the loan and naming the director who shall execute the mortgage deed duly signed by the chairman of the meeting under the common seal of the company.

12. Co-operative societies are required to submit a Certificate of Registration in original alongwith duly attested copies of the same. Society is also required to submit a copy of the Bye Laws duly certified by a permanent executive of the society alongwith a copy of the resolution for raising the loan against the mortgage of the fixed assets of the society and naming the officer to execute the mortgage deed duly certified by the chairman of the meeting.

13. A joint Hindu family has to file an affidavit of all the members of the family declaring the name of the

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13. A joint Hindu family has to file an affidavit of all the members of the family declaring the name of the

Karta who is authorised to act in this capacity for and on behalf of family for raising loans against the mortgage of the properties of the family.

14. Specimen signatures of the executants duly attested by a Ist Class Stipendiary Magistrate under his court seal or a scheduled Bank under its rubber stamp.

15. In case of Small Seals Industry an affidavit duly sworn before a Ist Class Stipendiary Magistrate or a Notary Public that the concern is on a small scale and that the capital investment in it does not exceed Rs. 7.5 lakhs.

All the borrowers are not expected to be well versed in all the above legal documents to be submitted to the corporation. The 'Legal Section' offers readily a helping hand to the borrowing units in securing these documents from various sources. When all the desired papers or documents from the party are found to be in order the Law Officer prepares a Mortgage Deed and gets it executed by the party concerned. The party is called upon for execution of Mortgage Deed on the date fixed by mutual understanding. On behalf of the corporation the general manager, the loan officer, the law officer or the assistant secretary is authorised to get the Mortgage Deed executed. Stamp at the rate of Rs. 17 for the deed as such plus Rs. 15 per thousand on the sanctioned amount is fixed upon the Mortgage Deed.

After execution the Mortgage Deed is submitted to the Sub-Registrar for registration. Any superintendent of the corporation may be required by the above officers to go and see the process of registration of the Mortgage Deed. The borrowing party pays the registration fees at the rate of Rs. 11 for the first thousand and Rs. 5 per thousand for the remaining amount of the sanctioned loan. In case of companies within 21 days of the execution of the Mortgage Deed, thecompany will get the charges registered with the Registrar of companies of the state. The Registrar, after registration of charges, will issue a 'Registration' Certificate' to the company which will be submitted to the corporation. The Registrar will keep the document and issue receipts where in due date forc collection of the mortgage deed is mentioned. The corporation also requires assets mortgaged as security to be insured with the Life Insurance Corporation of India as well as with the approved insurance companies[8] in India.

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[8]Following is the list of insurance companies in India which were approved by the corporation in this regard:

1. Sterling General Insurance Co. Ltd.
2. Calcutta Insurance Co. Ltd.
3. Jupitar General Insurance Company of India.
4. Bharat General Insurance Company of India.
5. British India General Insurance Employee Provident Fund.
6. Ruby General Insurance Co. Ltd.
7. Hercules Insurance Co. Ltd.
8. New Great Insurance Company of India.

After the execution of the mortgage deed following three documents are demanded from the party :-

(a) Final affidavit of Non-encumbrance on the usual stamp paper duly sworn before a Notary Public or a Ist Class Stipendiary Magistrate under his court seal for which draft is supplied by the corporation to the party.

(b) Final Non-encumbrance certificate from an advocate after the date of the previous certificate and upto the date of the final execution of the Mortgage Deed.

(c) Income-Tax clearance certificate. If the amount of the loan is more than Rs. 50,000 the Sub-Registrar requires this certificate at the time of registration of the mortgage deed. Drafts supplied by the corporation in this respect need not be rigidly followed. The party is at liberty to alter it. The Law Officers prepares the Mortgage Deed in 5 copies at the cost of the party which is at the rate of Rs. 20 per copy.

After completing all these legal formalities, the 'Legal Section' prepares a Legal Note and send it to the 'Disbursement Section' of the corporation. Then this section proceeds to releave the first instalment for which it prepares a 'First Payment Note.[9]

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[9]The following informations are usually given in the First Payment Note:

(i) Name and address of the borrowing unit.

(ii) Type of Industry

On the basis of this 'First Payment Note' the first instalment is disbursed to the party by the Accountant as per instructions received from the Managing Director through the Disbursement Section.

(iv) Management and executor of the mortgage deed.

(v) Total cost of the scheme and means of its financing.

(vi) Amount and date of sanction.

(vii) Security.

(viii) Report of the predisbursement inspection.

(ix) Report of the bank on the credit standing of the borrowing units.

(x) Execution and registration of the mortgage deed.

(xi) Mode of repayment of the loan.

(xii) Mode of payment of interest and its due date.

(xiii) In case of the company, registration of charges alongwith number and date of registration certificate.

(xiv) Details of the documents submitted.

(xv) Commitment levy and its applicability to the concern.

(xvi) Certificate of Law Officer or Deputy Law Officer regarding legal validity of the loan sanctioned under this scheme and execution and registration of the mortgage deed.

(xvii) The General Manager also puts favourable recommendation for releasing the first instalment.

(xviii) The Managing Director orders the Accountant to issue cheques and verifies the date of payment of principal and interest and confirms the receipts of legal fees.

After the disbursement of the first instalment whenever the party completes formalities and applies for further disbursement the Disbursement Section prepares 'Subsequent Disbursement Note[10].

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[10]The subsequent Disbursement Notes usually contain informations regarding the following items :-

(i) Amount of sanction of original as well as additional loan.

(ii) Purpose of the loan and subsequent revision thereof.

(iii) Amount disbursed upto that date.

(iv) Scheme of the project in original as well as revised one.

(v) Amount borrowers were required to invest.

(vi) In case the land is taken on lease its particular and amounts paid by party as well as the corporation is stated.

(vii) Security offered at the time of the last disbursement.

(viii) Whether the party has requested for retirement of various bills, if so particular of bills and names of supplier.

(ix) Brief record of technical officer's report who visited the site of the factory regarding the total investment in the project at the time of application for subsequent disbursement.

(x) Vouchers presented by the party for the utilisation of already disbursed amount.

(xi) Investment of the party alongwith the balance which they should invest in the project.

(xii) Security to be offered for further disbursement.

(xiii) Conditions regarding the release of the loan.

Such notes are prepared every time the disbursement is to take place. Every time under the order of the Managing Director the Account Section prepares the cheque for disbursing the amount.

(xiv) Instruction to Account Section to ensure before the proposed disbursement that there are no overdues and no amount is due from them as expenses etc.

(xv) Instruction to Insurance Section to ensure before the proposed disbursement that the insurance is upto date and is according to the security.

(xvi) General Manager puts his recommendation for further disbursement.

(xvii) Managing Director issues order to the 'Account Section' to issue a cheque of appropriate amount to the party.

(xviii) Record of action taken by the insurance section.

(xix) Record of the action taken by the post disbursement section.

(xx) Record of the action taken by the Disbursement Section.

Chapter VIII

OPERATIONAL ASSESSMENT OF THE CORPORATION

The corporation, being mainly a term lending institution, runs four loan schemes namely 'Loan Schemes from Own Funds', 'Loans and Grants Schemes', 'Liberalised Loan Scheme' and 'Cold Storage Loan Scheme' the latter three schemes being run under the agency agreement with the Uttar Pradesh Government. It also gives guarantee for loans and advances but this is not very important function at present. It has also not undertaken the underwriting business up till now, although it has been authorised for the same. The loans granted by the corporation may be classified as follows :-

- Loans
  - Corporation Loans
  - Agency Loans
    - Liberalised Loans Scheme
    - Cold Storage Scheme
    - Loans and Grants Scheme

The position of gross assistance sanctioned under all these schemes upto March, 1970 is shown in the following table :-

Table 8.1

Position of Various Schemes Run by the Corporation

(Rs. in crores)

Name of the Scheme	Applications	Sanctions	Percentage
Corporation Loan Scheme	451	14.59	68.5
Liberalised Loan Scheme	953	4.78	22.5
Loans and Grants Scheme	Nil	Nil	Nil
Cold Storage Scheme	96	1.03	4.8
Credit Guarantee Scheme	2	.88	4.2

Source : Annual Report of the Uttar Pradesh Financial Corporation for the year 1969-70.

The table shows that amountwise the corporation's own loans are more popular where as numberimise such popularity goes to the agency loans. It is because most of the corporation loans are of higher demominations ranging from one lakh to twenty lacks where as agency loans have denominations between Rs. 15,000 to 1,00,000 only. Loans and Grants Scheme, introduced recently, has contributed nothing as previously it was run by the Directorate of Industries, Government of Uttar Pradesh. The Cold Storage Scheme, run by the corporation under the agency agreement with

the Department of Agriculture, Government of Uttar Pradesh, has been discontinued recently. Credit guarantee, though still continuing, has contributed least in the total financial accomodation provided by the corporation. It also reveals that the corporation provides financial assistance mainly in the form of term loans which is 95.8% of the total assistance. This fact makes the corporation mainly a term lending institution. Let us analyse each scheme individually :

<u>Corporation Loan Scheme</u> :

This is the main scheme run by the corporation where the loans are granted out of its own funds collected from various sources. The position under this scheme is as follows : -

(Rs. in lakhs)

Year	Pending in the beginning		Received		Sanctioned		Rejected		Cancelled		Pending (at the end)	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1961	19	69.25	53	118.90	27	78.35	10	14.45	16	32.60	19	48.45
1962	19	48.45	14	55.86	10	34.68	3	13.50	12	21.06	8	31.30
1963	8	31.30	45	160.99	26	77.07	7	19.50	10	25.74	10	55.55
1964	10	55.55	61	239.90	27	120.37	12	29.75	27	118.30	5	15.50
1965	5	15.50	65	287.04	33	134.44	7	21.75	14	43.60	16	89.95
1966	16	89.95	47	276.41	12	75.17	5	33.25	18	65.70	28	184.41
1967	28	184.41	47	242.78	17	59.67	3	7.59	16	109.91	39	241.84
1968	39	241.84	31	141.27	17	84.56	15	59.93	23	108.72	15	126.50
1969	15	126.50	102	320.33	57	182.92	13	41.53	24	66.05	24	165.19
1970	24	165.19	164	576.45	128	417.48	15	51.54	15	110.70	31	137.67

Source : Annual Reports of the Uttar Pradesh Financial Corporation for the above years.

The table reveals that there is a sudden expansion in sanctions of loans to the industrial units in recent years. Applications dealt with every year has shown an increasing trend over this period. There is increase in number as well as amount of financial assistance provided by the corporation. There is more than three times increase in number and nearly five times increase in the amount of applications seeking financial assistance from the corporation. Similarly the assistance sanctioned has also gone up numberwise nearly five times and the amountwise more than five times during this period. Slight increase in the number of rejected applications and almost constant number of cancelled ones clearly indicate that the corporation is following a liberal policy in respect of sanctioning the loan. Moreover the formalities were also made easier on account of which number of rejected cases has declined.

Constitutionwise analysis reveals that the partnership 'irms are most popular borrowing unit with the corporation. :t is followed by the sole proprietary concerns, public and rivate companies, co-operative societies and joint Hindu family nits respectively. Recently the corporation has dropped joint indu family concerns from the ~~above~~ list of borrowing units ıe to some difficulty regarding ownership of properties given s security. The corporation has sanctioned and disbursed .nancial assistance to various types of borrowing units which e as follows :-

Table 8.3

Position of Various Borrowing Units

(Rs. in crores)

Constitution of Borrowing units	Sanctions		Disbursements		Outstanding	
	No.	Amount	No.	Amount	No.	Amount
Partnership Firms	151	3.03	116	2.07	93	1.34
Private Companies	75	2.45	71	2.04	53	1.08
Proprietory Concerns	72	1.10	48	0.50	32	0.33
Public Companies	48	4.00	39	2.65	35	1.85
Joint Hindu Family	8	0.09	8	0.09	7	0.05
Co-operative Societies	4	0.61	2	0.21	2	0.19
Total :	358	11.28	284	7.56	222	4.84

Source : Annual Report of U. P. Financial Corporation of March, 1970.

The table explains that numberwise the highest priority was given to partnership firms ~~concerns~~ followed by ~~the~~ private companies, sole proprietary units and public limited companies etc. The amountwise public companies are getting first place followed by the partnership firms, private companies and sole proprietory concerns respectively. The average amount of sanctio

to the public companies is the highest which declines in case of private companies, partnership firms and sole proprietory concerns respectively.

Similarly in case of the disbursement of the loans the highest amount has gone to the public companies followed by the partnership firms, private companies, sole proprietary concerns respectively. Towards the end of March 1970, the corporation has disbursed Rs. 7.57 crores on 284 applications which is nearly 67 percent of net amount sanctioned.

The corporation has provided assistance to both the small as well as the large scale industrial units. There position upto March 1970 is follows :-

Table 8.4

Financial Assistance to Small And Large Concerns

(Rs. in crores)

Scale	Sanction		Disbursement	
	No.	Amount	No.	Amount
Small Scale	241	4.00	178	2.25
Large Scale	117	7.29	106	5.32
Total :	358	11.29	284	7.57

Source : Annual Report of the U. P. Financial Corporation.

The table reveals that out of the total number of 358 sanctions 241 has gone to the small scales units and only 117 goes to medium and large scale units. Amountwise sanctions to small scale units is only 35 percent whereas for medium and large scale units it is nearly 65 percent of the total sanction. Similarly, the position of disbursement to medium and large scale units is also better as compared to that of the small scale units because the corporation has disbursed only 56 percent of sanctioned amount to the small scale units but the same for large scale units is 73 percent. In respect of the sanction this tendency may be usual as the small units can not take larger loans but the disbursement presents an unnatural trend and shows negligence on the part of the corporation. During recent years there is sudden rise in number and amount of sanction to small scale units which indicates that the policy of the corporation has undergone change in favour of the small scale units.

Since its inception, the corporation has sanctioned applications of varying denominations which have been as follows :-

Table 8.5

Denomination of Assistance Sanctioned

(Rs. in lakhs)

Limits of loans	Number	Amount	Percentage
Below Rs. 25,000	15	3.00	0.3
25,000 - 50,000	20	8.31	0.7
50,000 - 1,00,000	37	32.04	2.8
1,00,000 - 2,00,000	141	217.05	19.2
2,00,000 - 5,00,000	90	300.71	26.6
5,00,000 -10,00,000	40	297.51	26.4
10,00,000-20,00,000	15	270.75	24.0
Total :	358	1129.37	100

Source : Annual Report of the U.P. Financial Corporation March 1970.

The loans below Rs. one lakh has been least popular with the corporation as it is merely 3.8 percent of the total amount sanctioned. Moreover these are exceptions to the recently accepted limits of the loans provided by the corporation which is between one to twenty lakhs of rupees. Such loans were sanctioned at the earlier stages of the development of the corporation. Numberwise most popular denomination of the loans of the corporation lies between one to two lakhs but the amountwise denominations between two to five lakhs are getting this place. Nearly

one - fourth of loans have a denomination above ten lakhs of rupees which has gone to 15 industrial units situated in U.P.

The corporation has provided financial assistance to 358 units of ninety eight industries in Uttar Pradesh. The contribution of the corporation to each industry is as follows :

Table 8.6

Position of Financial Assistance to Various Industries

(Rs. in lakhs)

Industries	No.	Amount	No.	Amount	Percentage
Cold Storage	63	99.36	58	86.23	86
Agricultural Implements	19	29.73	13	16.66	57
Sugar	18	99.77	17	79.27	79
Printing Press	12	25.17	10	19.00	76
Paper and Straw Board	10	36.40	9	30.40	83
Drugs & Pharmaceuticals	8	23.02	7	16.30	70
Spare parts of Machineries	8	14.47	7	12.03	86
Hotel	8	9.02	7	5.10	57
Transports Equipments.	7	11.25	7	9.90	90
Motor Cycle	7	26.05	6	22.15	85
Canning and Preserving of Fruit	6	21.70	5	11.23	51
Cutlery Locks	6	8.97	6	8.97	100
Iron and Steel Castings	6	18.95	3	13.86	73
Iron and Steel Structurals	6	30.50	6	30.50	100
Gas Manufacture and Distribution	5	14.75	5	14.75	100
Mathematical Surveying and Drying Instrument	5	6.73	5	5.98	90
Metal Ware and Utensils	5	7.77	4	4.96	70
Wire Glass and other products	5	10.96	1	4.30	39
Plastic Moulded Goods	5	10.68	2	3.43	31
Miscellaneous	149	634.12	106	361.67	57
Total :	358	1129.37	284	756.69	67

Source : Annual Report of the U.P. Financial Corporation for

The top priority is given to the industries related to agriculture where cold storages are getting top place followed by the units producing agricultural implements and units engaged in sugar industry. This is consistant with the policy for agricultural development of the Uttar Pradesh Government. The table also reveals that the corporation has covered more than five units in each of the 19 industries out of exhaustive list of 98 industries in all. In respect of rest of industries the corporation has sanctioned one to four applications. The corporation on an average, has disbursed nearly 67% of the total amount of sanction but such proportionate disbursement has been different for different industries. Out of 19 industries getting major financial help in 15 cases the amount disbursed has been more than 67 percent which rose to even 100 percent in a few cases. Thus in four cases the disbursement percentage to the sanction has been less than 67 percent. Except these 19 industries the corporation, on an average, has disbursed 57 percent of the amount sanctioned.

Similarly district-wise allocation of total financial help provided by the corporation shows that such help is concentrated in a few districts. Out of the 54 districts in Uttar Pradesh the corporation could send the mission of financial help only to 41 districts. Amongst these 41 districts, 10 districts are getting substantial part of the financial assistance. Where, in each, more than 10 units have been financed by the corporation.

Kanpur, Meerut and Varanasi are the three districts which are getting 35% of the total financial assistance. This indicates the concentration of financial assistance to industrial units in a few districts only which is as follow :-

Table 8.7

Districtwise Sanction of Loans and Advances

(Rs. in lakhs)

Districts	No. of units	Amount	% of Total
Kanpur	58	87.49	8.75
Meerut	51	213.18	18.25
Varanasi	38	82.31	8.50
Lucknow	28	97.00	9.40
Aligarh	21	38.25	3.40
Allahabad	20	95.41	6.90
Moradabad	14	19.95	2.00
Agra	11	25.95	2.50
Bareilly	11	24.25	2.40
Saharanpur	10	17.91	1.90
Dehradun	6	27.79	2.30
Farrukhabad	6	10.43	1.10
Gorakhpur	6	38.35	2.90
Nainital	6	15.00	1.20
Badaun	6	15.15	1.20
Bulandsahar	5	24.21	2.25
Rampur	5	22.65	1.85
Etah	5	18.95	1.65
All others	52	255.14	21.95
Total :	358	1129.37	100

Source : Annual Report of the U.P. Financial Corporation for March 1970.

The table shows that there are in all eighteen districts where more than 5 units have been assisted financially by the corporation. Many eastern and hilly districts have been ignored or given very meagre financial assistance by the corporation. On an average districts getting financial assistance should roughly get 2.5 percent of the total assistance, but five districts were given three to eight times more than the above normal financial assistance. Apart from this, leaving aside six districts getting below normal or nigligible assistance of the corporation. Eighteen percent assistance of the corporation has gone to the Meerut district alone. Lucknow, Kanpur, Varanasi and Allahabad are the other districts commanding substantial financial assistance from the corporation. Such uneven distribution of financial assistance does not show any willful negligence of the corporation, but it is on account of the relative industrial development of every district. Ghaziabad (Meetur) Kanpur and Naini (Allahabad) are main industrial areas of the state and must therefore command greater financial assistance than other districts of the state which are comparatively less developed.

After the loan has been granted the recovery of the same starts after two years from the date of disbursement of the first instalment. The recovery is done by annual instalments which is managed by the Account Section of the corporation The borrowing units are expected to deposit the instalments

themselves on the due dates. The position of recovery of the loan over a period of eight years has been as follows :-

Table 8.8

Position of Recovery of the Loans

(Rs. in lakhs)

Year	Amount outstanding	Loans in Arrears		Index	
		Amount	Percentage	Loans	Arrears
1962-63	120.98	2.51	2.00	100	100
1963-64	157.70	3.86	2.4	130	154
1964-65	212.31	3.99	1.9	176	159
1965-66	269.11	7.61	2.9	222	303
1966-67	308.42	17.63	5.7	255	702
1967-68	331.33	21.58	6.5	274	860
1968-69	375.13	14.88	4.0	310	581
1969-70	487.22	15.61	3.0	402	622

Source : Annual Reports of the U. P. Financial Corporation for the above period.

The table reveals that the amount of loans and advance outstanding towards the end of every year have been constantly increasing which is a natural trend and shows an expansion in the credit activity of the corporation. On the other hand arrears are also increasing which has been ranging from 2 to 6.5 percent of the loans and advances outstanding. The

proportion of loans in arrears has been constantly increasing upto the year 1967-68 which shows a slight improvement during the year 1968-69 when the above proportion declined to 4 percent from 6.5 percent in the previous year. This has further declined to 3 percent in the subsequent year.

The comparison of index number of outstanding loans and advances with the index number of loans and advances in arrears has shown an adverse trend as the index number of outstanding loans and advances has increased upto 402 while that of the arrears have gone up even upto 860 during the year 1967-68 which declined subsequently but further increased during the year 1969-70. This shows the need for strengthening the 'Recovery Cell' of the corporation. The corporation has concentrated much attention to the sanction of the loan and ignored the recovery of the loan which is equally important.

Apart from the above default in respect of the principal loans, there is default in respect of the interest earned by the corporation. Overdue interests on loans earned by the corporation has been increasing which is as follows :-

Table 8.9

Position of Overdue Interest

(Rs. in lakhs)

Year	Interest earned	Interest overdue	Percentage	Index Number	
				Interest earned	Interest overdue
1962-63	7.16	1.02	14.2	100	100
1963-64	8.55	1.10	12.9	120	108
1964-65	11.72	1.27	10.9	167	125
1965-66	18.98	3.49	18.4	270	340
1966-67	23.69	5.49	23.2	338	540
1967-68	27.10	6.96	25.7	387	680
1968-69	28.67	9.95	34.7	409	980
1969-70	34.17	14.84	46.4	488	1,460

Source : Annual Reports of the U.P. Financial Corporation for the above years.

The table shows an increasing trend in the amount of overdue interest over the above period. Relatively the percentage of the overdue interest to the amount of interest earned has declined upto the year 1964-65 but afterwards it has increased rapidly. Towards the end of 1969-70 this was 46.4 percent of the amount earned by way of interest. This shows inability of the corporation to realise the amount of interest

on due dates. This inefficiency has been increasing over recent years which again emphasize the need for having some section in the corporation whose functions should be concentrated upon the collection of money due to the corporation.

The index number of the interest earned and interest in default, have been increasing over the period under consideration. Upto the year 1964-65 the index number of the interest earned has been increasing at a faster rate than the rate of increase in the interest in default but onwards the position has been reverse. Towards the end of 1969-70 this increase in the interest in default has been nearly five times of the increase in the interest earned on the loan. This may make the financial position of the corporation unsound.

Liberalised Loan Scheme :

The corporation has been running this scheme ever since 1956-57 under the agency agreement with the Government of Uttar Pradesh which places funds from time to time at the disposal of the corporation out of which loans are sanctioned on the applications received by it duly recommended by the Directorate of Industries, Kanpur. The position of funds placed by the Government, loans granted and funds remaining idle with the corporation have been as follows :-

Table 8.10

Position of Funds Placed Under this Scheme

(Rs. in lakhs)

Year	Funds Placed		Loans Granted		Idle Funds	
	During the year	Total	During the year	Total	Amount	Percentage
1956-57	65.00	65.00	4.63	4.63	60.37	92
1957-58	--	65.00	13.49	18.12	46.88	72
1958-59	--	65.00	12.65	30.77	34.23	52
1959-60	10.00	75.00	12.29	43.06	31.94	43
1960-61	25.00	100.00	20.04	63.10	36.90	37
1961-62	69.16	169.16	14.64	77.74	91.42	54
1962-63	--	169.16	13.60	91.34	77.82	46
1963-64	--	169.16	13.09	104.43	64.73	39
1964-65	--	169.16	17.77	122.20	46.96	28
1965-66	--	169.16	25.17	147.37	21.79	13
1966-67	17.00	186.16	23.46	170.83	15.33	8
1967-68	27.11	213.27	29.82	200.65	12.62	6
1968-69	35.50	248.77	29.91	230.56	18.21	7
1969-70	64.00	312.77	36.04	266.60	46.17	15

Source : Annual Report of the U. P. Financial Corporation for March 1970.

The table shows that the total loans sanctioned have been constantly increasing since the inception of the scheme but huge amount of funds were also lying idle with the corporation. Although on account of increasing popularity of the scheme the amount of idle funds have been decreasing constantly. The coverage under this scheme has been increasing through out the period of its existence. Industrial units belonging to increasing number of industries are provided with the financial assistance under this scheme where the corporation sanctions loans ranging from Rs. 15,000 to Rs. 1,00,000. It is primarily meant to serve as a good source of finance to the small scale industrial units. The corporation, upto March 1970 sanctioned loans to 953 units of the state but many of these units declined to withdraw such sanctioned amount, hence the total number of effective sanctions on that date were 715 only.

The loan applications received, sanctioned and disbursed under this scheme are as follows :-

Table 3.11

Position of Application Considered

Year	Pending	Received	Total	Sanctioned	Rejected or Cancelled	Application Returned to S.1
1963-64	16	81	97	44	14	31
1964-65	8	129	137	54	20	1
1965-66	62	95	157	61	16	41
1966-67	39	82	121	61	36	0
1967-68	24	71	95	48	27	0
1968-69	20	75	95	54	25	0
1969-70	16	251	267	173	21	0

Source : Annual Reports of the U. P. Financial Corporation for March 1970.

The table indicates that the corporation has sanctioned an increasing number of applications since the inception of the scheme and continues to get an increasing number of applications from large number of industrial units of the state. The corporation has also cancelled or rejected an increasing number of applications but its relative position during recent years has shown tremendous improvement as relatively lesser number of applications are rejected or concelled out of the total number of applications considered.

After the sanction loans are disbursed in the same way in which loans from corporation's own funds are disbursed. The disbursement totally depends upon the applicant units because as and when they put a demand upon the corporation on the basis of construction work completed or other fixed assets created, it is disbursed. The disbursement position under the scheme can be analyed taking into account the applications sanctioned and the position of funds placed by the government at the disposal of the corporation which is as follows :-

Table 8.12

Position of Disbursement Under Liberalised Scheme

(Rs. in lakhs)

Year	Fund for the year	Sanction		Disbursement			
		No.	Amount	No.	Amount	Percentage to Fund	Percentage to sanction
1956-57	65.00	105	31.23	20	4.63	7	15
1957-58	60.37	71	27.00	39	13.49	22	31
1958-59	46.88	58	17.38	48	12.65	27	40
1959-60	44.23	60	23.48	47	12.29	28	43
1960-61	56.94	81	39.02	54	20.04	35	45
1961-62	106.06	42	24.36	35	14.64	14	48
1962-63	91.42	41	20.27	36	13.60	15	50
1963-64	77.82	44	20.63	28	13.09	17	51
1964-65	64.73	54	34.32	36	17.77	27	51
1965-66	46.96	61	42.05	49	25.17	54	53
1966-67	38.79	61	42.36	37	23.46	60	53
1967-68	42.44	48	33.42	43	29.82	71	56
1968-69	48.12	54	36.06	51	29.91	65	60
1969-70	82.21	173	84.82	82	36.04	44	60

Source : Annual Reports of the U. P. Financial Corporation for the year 1969-70;

The table shows an over all improvement in the above disbursement position. The percentage of disbursement to the total funds available at the disposal of the corporation has been very nominal but increased subsequently although not continuously. The percentage of disbursement to the sanction has been increasing continuously which is calculated on the cumulative amount of sanction and disbursement because whatever disbursement is done during any year that includes the amount of disbursement in respect of sanction of the previous years. It was nearly 15 percent at the time of introduction of this scheme but increased to 60 percent during the year 1969-70.

Industry-wise Financial Assistance :

Though the corporation has sanctioned financial assistance to as many as 715 industrial units which belong to 128 industries. Out of these 128 industries only first 20 industries are taken into account where the sanction, in each case, exceeds Rs. 5 lakhs.

Table 8.13

Industry-wise Sanction and Disbursement

(Rs. in lakhs)

Sr. No.	Name of Industries	Sanction No.	Sanction Amount	Sanction % to total	Disbursement Amount	Disbursement % to total	Disbursement % to sanction
1.	Sugar (including Khandsari)	63	28.29	8.0	27.07	10.1	96.7
2.	Agricultural Implements	55	27.70	7.7	15.01	5.6	53.6
3.	General items of machinery	48	20.66	5.8	18.68	7.0	90.0
	Metal ware and utensils	27	15.14	4.2	14.03	5.2	93.5
	Paper Board and Straw Board	15	10.38	3.0	8.99	3.4	88.5
	Textiles Dyeing Bleaching etc.	30	9.03	2.5	8.23	3.1	91.4
	Pressure cookers Steel Sheets etc.	12	7.42	2.1	4.60	1.7	62.1
	Canning and Preserving of Fruits	13	7.23	2.0	6.58	2.4	91.4
	Bolts, Nuts, Nails etc	15	7.19	2.0	6.04	2.3	83.9
	Iron and Steel Pipes	11	6.95	1.9	6.00	2.3	85.7
	Transport Equipment	14	6.64	1.8	3.51	1.3	53.2
	Fertilizers	14	6.61	1.8	6.61	2.4	100.0
	Drugs and Pharmaceuticals	12	6.33	1.7	4.25	1.6	67.5
	Iron and Steel Castings and Farging	10	5.80	1.6	5.80	2.1	100.0
	Electric Cables and Wires	10	5.57	1.5	3.06	1.1	55.0
	Chinaware and Pottery	10	5.45	1.5	0.41	0.2	7.0
	Rolls for Rollers Dies, Chaff Cutters	9	5.35	1.5	3.[illegible]	1.1	57.3
	Miniature Bulbs conduit pipes	10	5.23	1.5	4.96	1.8	94.8
	Chemical Products	11	5.12	1.4	3.33	1.2	65.0
	Insecticides, fungicides and weedicids	7	5.05	1.4	3.92	1.4	77.6
	Total :	396	197.14	54.9	154.15	57.5	78.2

The above 20 industries are commanding nearly 55% of the total sanction. The table reveals that 4 top industries are getting more than 25 percent of total sanction under this scheme and the top position is occupied by those industries which are based on agriculture. Out of the total number of 715 units getting financial assistance under this scheme, 396 units belong to top 20 industries. The disbursement position has also revealed a favour for these 20 top industries as 57.7 percent of the total disbursement upto the year 1969-70 has gone to these industries and only the remaining 42.5 percent has been disbursed to rest of 108 industries. On an average these top industries are getting the disbursement equal to 78.2 percent of the financial assistance sanctioned although in twelve cases the disbursement has been even more than this average percentage and has been even 100 percent in two cases.

The corporation under this scheme sanctions financial assistance to private and public limited companies partnership firms, sole proprietorship concerns and registered co-operative societies. Previously the corporation was granting assistance to joint Hindu family concerns but now on account of certain legal difficulties in connection with ascertaining the ownership of the assets offered as securities it ceased to grant financial assistance to them. Similarly in the beginning registered co-operative societies were not considered for the assistance but now these have been included in the lists of units getting

financial assistance from the corporation. The position of constitutional set-up of the borrowing units under this scheme is as follows :-

Table 8.14

Number of Applications of Various Borrowing Units

Year	Total sanction	Public company	Private company	Partnership	Sole proprietorship	Joint Hindu Family	Registered society
1962-63	41	-	3	25	12	1	-
1963-64	44	1	4	17	22	-	-
1964-65	54	-	5	27	21	-	1
1965-66	61	1	2	29	26	1	2
1966-67	61	-	4	27	26	2	2
1967-68	48	-	1	24	21	1	1
1968-69	54	-	2	22	28	2	-
1969-70	173	-	5	51	117	-	-

Source : Annual Reports of the U. P. Financial Corporation for the year 1969-70.

The table shows that the corporation has mainly granted its financial assistance to the private limited companies, partnership firms and sole proprietory concerns under this scheme. The assistance sanctionedto public limited companies, registered co-operative societies and joint Hindu family

concerns has been quite negligible. In many years there has been no sanction to these latter type of concerns as is obvious from the table. In other years even if certain assistance was sanctioned to these concerns only one or two concerns belonging to such categories were getting financial assistance from the corporation.

During earlier years partnership firms were most popular with the carporation for assistance under this scheme. They were followed by proprietorship concerns. The same continued upto the year 1968-69 but during the year 1969-80 position of financial assistance to sole proprietory concern improved tremendously which surpassed the assistance to partnerhhip concerns. During the year 1969-70 there was an alround increase in the assistence by the corporation under this scheme. The assistance was given only to three types of the concerns i.e. private companies, partnership firms and sole proprietory concerns where the sole proprietory concern commanded larger number of assistance than others.

Agriculture Department Loan Scheme :

This scheme is also run by the corporation under the agency agreement of the U. P. Government where loans are granted for getting up of Cold Storages in the State which is meant for providing increased facilities to the potato growers by enabling them to get adequate return and to store desease free potato seeds. The U. P. Government placed Rs. 10 lakhs at the disposal

of the corporation during the year 1961-62, but the sanctions of the loan under this scheme started only after 1962-63. The year-wise position of the fund placed by the Government and loan sanctioned by the corporation under this scheme has been as follows :-

Table 8.15

Position of Funds and Sanctions

(Rs. in lakhs)

year	Funds placed		Loans granted		Idle Funds	
	During the year	Total	During the year	Total	Total	Percentage
1961-62	10.00	10.00	--	--	10.00	100.0
1962-63	--	10.00	--	--	10.00	100.0
1963-64	--	10.00	2.85	2.85	7.15	71.5
1964-65	4.00	14.00	5.78	8.63	5.37	38.4
1965-66	--	14.00	1.22	9.85	4.15	29.6
1966-67	18.00	32.00	4.02	13.87	18.13	56.7
1967-68	40.00	72.00	38.84	52.71	19.29	26.8
1968-69	--	72.00	24.62	77.33	-5.33	-7.4
1969-70	--	72.00	3.98	81.31	-9.31	-13.0

Source : Annual Report of U. P. Financial Corporation for the year 1969-70.

This scheme has been suspended from the year 1969-70, as the corporation has not sanctioned any application since then and the fund placed by the Government has also exhausted fully by that time. The corporation managed additional fund for disbursement from the repayment etc. The scheme was under active operation for five years only and during that period the disbursement increased tremendously in the year 1967-68 which was followed by the subsequent year. The idle fund at the disposal of the corporation has declined and has become negative over this period. The corporation has sanctioned financial assistance to the extents of Rs. 102.80 lakhs to 96 units for construction of cold storages upto the year 1968-69 out of which it has disbursed Rs. 81.31 lakhs to 76 concerns only.

The yearwise position of applications considered by the corporation under this scheme is as follows :-

Analysis of Loan Applications

(Rs. in lakhs)

Year	Pending in the beginning	Received	Total considered	Sanctions			Rejected	Returned	Pendi
				No.	Amount applied	Amount			
1962-63	--	12	12	5	4.35	3.05	1	3	3
1963-64	3	40	43	9	9.75	7.45	-	7	27
1964-65	27	4	31	1	1.50	1.50	-	7	23
1965-66	23	--	23	4	3.95	3.60	4	-	15
1966-67	15	39	54	16	22.00	16.50	12	1	25
1967-68	25	73	98	60	85.40	69.50	13	-	25
1968-69	25	--	25	1	3.00	1.20	24	-	-

Source : Annual Report of U. P. Financial Corporation for the year 1969-70.

The table shows that the financial assistance under this scheme has been fluctuating from year to year. Through out the existence of this scheme only for a few years, the corporation received an increasing number of applications. After the year 1967-68 the corporation did not entertain any application and the scheme was ultimately discontinued from the year 1969-70. Similarly in respect of the sanction there is no particular trend. Largest number of sanctions has been in the year 1967-68 as 60 out of the total number of 96 sanctions have been during this year.

The applications, which in the opinion of the corporation, were not satisfactory due to lack of informations, which were not supplied, despite repeated notices to the party, were returned to the Agriculture Department of the U. P. Government. The number of such applications was high during the earlier years but during latter years it was negligible as there was no such return. The sizeable number of applications remained under consideration towards the end of every year.

The corporation under this scheme has provided financial assistance to private companies, partnership firms, sole-proprietory units and joint - Hindu family concerns which have been as follows :-

Position of Sanction

Year		Private Companies		Partnership Firms		Sole-Proprietory Units		Joint Hindu Family concerns		Total	
		No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Upto	1963-64	1	1.00	9	5.35	2	2.00	2	1.65	14	10.00
During	1964-65	-	--	-	--	1	1.50	-	--	1	1.50
"	1965-66	-	--	2	1.65	1	0.95	1	1.00	4	3.60
"	1966-67	-	--	12	11.50	3	3.50	1	1.50	16	16.50
"	1967-68	2	1.50	44	52.35	13	13.65	1	0.50	60	9.50
"	1968-69	-	--	1	1.20	--	--	--	--	1	1.20

Source : Annual Reports of U. P. Financial Corporation for the year 1969-70.

The table shows that the corporation has concentrated its financial assistance mainly in the partnership firms and sole proprietory concerns under this scheme. In case of private companies there have been only 3 sanctions out of the total number of 96 throughout the existence of this scheme. There is a slight improvement in the position of joint Hindu family concerns as the corporation sanctioned in all 5 applications of such concerns but one application was concelled later on hence there are only four effective sanctions to such units. The position of sole proprietory units is better than the above two types of the concern as the corporation has sanctioned financial assistance to 20 such units which command nearly one-fifth of the total sanctions under this scheme.

The partnership firms were most popular units with the corporation from the very beginning for the financial assistance. The corporation sanctioned an amount equal to 70 to 87 percent of the amount applied to 66 partnership firms out of the total number of96 units getting assistance under this scheme. In aggregate the corporation has sanctioned nearly 70 percent of the assistance to these units.

Rate of Interests Under this Scheme :

The rate of interest charged by the corporation under this scheme in the beginning was 5% per annum which remained inforce upto the year 1965-66. Subsequently the U. P. Government

directed that loans sanctioned out of the funds placed during the year 1966-67 will carry a interest of 7½%, hence the rate of interest has gone up which remained inforce subsequently throughout the existence of the scheme.

Maximum Limit of Assistance :

Since the very beginning the maximum limit of loan sanctioned to any unit was Rs. 1,50,000 but during the year 1966-67 the limit was reduced to Rs. 1,00,000 only. This amount was found to be inadequate hence during the subsequent year the limit was again raised to Rs. 1,50,000 or one-half of the total cost of construction of the cold storage, whichever was lower.

PART III

Chapter IX

LOAN APPLICATIONS, THEIR DISPOSALS AND DENOMINATIONS

This analysis is based on a sample of 58 sanctioned and 42 rejected applications. It is nearly 20 percent of their total number (i.e. 284 sanctioned and 211 rejected applications respectively) received by the corporation since its inception upto the March 1970. In this sample only those sanctioned applications have been considered in whose case either the disbursement has started or is expected to start in near future and the rejected applications considered here, refer to those, which failed to get the favour of the board of directors of the corporation and exclude applications withdrawn or lapsed.

As the corporation considers applications for financial assistance from new as well as existing industrial units, their respective position in this sample is as follows:-

Table 9.1

Position of Loan Applications from New As well As Existing Borrowing Units

(Rs. in lakhs)

Applications	Sanction			Rejection			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
New Units	28	77.11	23	22	66.31	20	50	143.42	43
Existing Units	30	130.00	40	20	57.25	17	50	187.25	57
Total :	58	207.11	63	42	123.56	37	100	33.67	100

The table reveals that new and existing industrial units have received equal importance in respect of number of loan applications but the amount on these applications has been 43 and 57 percent respectively of the total amount of all the applications. The corporation prefers applications from existing units as the number of sanction has been 30 for existing units as against 28 for new units out of total number of 50 for each. The amount on applications from existing units sanctioned has also been 40% of the total amount on all (sanctioned as well as rejected) applications, whereas such percentage in respect of new units has been 23 only. On the other hand, in respect of rejected applications, the number as well as amount of applications from new units has been higher as compared to those in respect of existing units.

There is a slight positive association between number of applications from existing units and their sanction by the corporation as the value of Yule's Co-efficient of Association is +.082. But, if the percentage of total amount of all types of applications is taken into consideration, the value of such co-efficient of association is +.344, which indicates a higher positive association between the amount of application from existing units and their sanction.

Although the number of applications from new as well as existing industrial units is equal, there is a great difference in the amount on such applications, which indicates some

relationship (positive or negative) between average size of the applications and their sanction or rejection. The average size of sanctioned and rejected applications from new as well as from existing industrial units is as follows :-

Table 9.2

Average Size of Loan Applications

(Rs. in lakhs)

Applications	Sanction		Rejection		Total	
	Amount	%	Amount	%	Amount	%
New Units	2.70	73	3.01	102	2.87	85
Existing Units	4.33	122	2.86	97	3.86	115
Total :	3.57	100	2.94	100	3.31	100

It is obvious that average size of applications from new industrial units is smaller than those from existing units. Similarly, average size of sanctioned applications is higher than such size of rejected applications. Amongst sanctioned applications the average size of applications of new units is lower than the average size of sanctioned applications from existing units and reverse is the case with regard to the rejected applications. Thus the corporation prefers applications of smaller denominations from the new and of higher denominations from existing industrial units. This has been further analysed as follows :-

Table 9.3

Denomination of Loan Applications

Size	New Units		Existing Units		Total	
	Sanction	Rejection	Sanction	Rejection	Sanction	Rejection
More than average	10	7	15	5	25	12
Less than average	18	15	15	15	33	30
Total :	28	22	30	20	58	42

The table reveals that the corporation is biased towards applications of higher denomination as the value of Yule's co-efficient of association between applications of more than average denomination and sanction in respect of all applications is +.31. This value has been +.50 in respect of applications from existing industrial units. In case of new industrial units such co-efficient of association has been positive, though only slightly, as the value is merely +0.087. Thus whether it is a new or an existing industrial unit, the corporation likes to consider favourably the applications of comparatively higher denomination.

Period of Disposal :

The time involved in disposing of the applications has extended even beyond a year but on an average the corporation has taken 163 days for disposal of all applications under the

sample. The average number of days taken in sanction and rejection of applications has been 138 and 196 respectively. The following table reveals the periodicity of the disposal of applications considered :-

Table 9.4

Periodicity of Disposal of Loan Applications

(Rs. in lakhs)

Period (days)	Sanction			Rejection		
	No.	Amount	%	No.	Amount	%
0-30	7	27.85	13	-	--	--
31-60	4	6.85	3	3	6.81	6
61-90	13	45.80	23	7	18.60	16
91-120	8	19.20	9	4	8.75	7
121-150	8	24.72	12	5	11.70	9
151-180	4	30.64	15	7	11.46	12
181-210	3	16.50	8	5	18.14	14
211-240	2	5.75	3	1	10.00	8
241-270	3	12.70	6	2	4.00	3
271-300	1	5.00	2	2	13.00	10
301-330	1	2.75	1	2	6.50	5
331-360	1	2.00	1	1	1.00	1
361- & above	3	8.15	4	3	11.60	9
Total:	58	207.11	100	42	123.56	100

The least time taken in sanctioning the application has been merely five days where as the maximum time has extended upto 506 days, although average time has been 138 days. The most popular period for the sanction of loan is between 61-90 days. This is followed by the period between 121-150 days. Quite a good number of applications have been disposed of within a month indicating the intention of the corporation for early disposal of applications.

The time taken for rejection of applications has varied from 41 to 1188 days from the date of the application, although the average number of days for rejection is 196 days. Most popular period for rejection has been same as that for sanction, which is followed by the period between 151 to 180 days. The time involved in rejection being higher is indicative of well considered rejection by the corporation. The periodicity of sanction and rejection has witnessed almost similar trend as the value of rank correlation is +.59.

The disposal position of applications by the corporation can be further analysed with the help of the following table :-

Table 9.5

Disposal of Loan Applications During Pre And Post Average Period

Period	Sanction			Rejection			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
Pre-Average	41	127.12	39	22	49.41	15	63	176.53	54
Post-Average	17	79.99	23	20	74.15	23	37	154.14	46
Total :	58	207.11	62	42	123.56	38	100	330.67	100

The table reveals that out of the total number of applications under the sample 63 applications for a total sum of Rs. 176.53 lakhs have been disposed of within 163 days, which is 54 per cent of the total sum requested for in the applications considered under the sample. The rest have been disposed of during post-average period.

Pre-average disposal and the sanction are positively associated and the value of Yule's co-efficient of association based on the number of applications disposed of is +.37, which indicates early sanction and late rejection by the corporation. Taking into account the percentage of amount of sanction and rejection during pre and post-average period the value of such co-efficient of association comes to be +.44, which is slightly higher as compared to the above association based on number of

sanctions and rejections. This seems to be on account of the variation in the denomination of applications disposed of during the pre and post-average periods.

Applications for smaller denominations are disposed of earlier as compared to the applications of higher denominations. Average denomination of applications disposed of during post-average period is Rs. 4.17 lakhs, whereas the same for the pre-average period is Rs. 2,80 lakhs only. This is higher in respect of sanctioned applications, because average denomination of applications sanctioned during post-average period is Rs. 4.70 lakhs but the same during pre-average period is Rs. 3.08 lakhs. For rejected applications, although the average denomination for both the periods is less, yet the trend remains the same because the average denomination of the post-average period is Rs. 3.71 lakhs as against Rs. 2.25 lakhs for pre-average period. It may be concluded that the applications of higher denomination require longer periods for disposal and vice-versa.

The number of days involved in disposal of applications has also varied according to the age of the borrowing units, as the average number of days for sanction and rejection to new units are 134 and 174 respectively, whereas in respect of existing units they are 142 and 221 respectively.

The period involved in the disposal of applications from various borrowing units also varies depending upon the constitutional set up of the borrowing units as shown in the

following table :-

Table 9.6

Average Time for Disposal of Loan Applications of Various Borrowing Units

(Average Number of days)

Borrowing Units	Sanction			Rejection		
	New	Existing	Total	New	Existing	Total
1. Sole Proprietary Units	122	66	106	142	481	234
2. Partnership Firms	119	158	139	178	185	182
3. Private Companies	122	124	123	138	216	190
4. Public Companies	--	148	148	--	62	62
5. Co-operative Societies	--	343	343	417	56	237
6. Joint Hindu Family Units	506	--	506	199	150	183
Total :	134	142	138	174	221	196

The table shows that, on the whole, the average period for sanction is less than the period for rejection in respect of both new as well as existing borrowing units. The rank co-relation between period for total sanction and rejection is -.86, which indicates a negative relation between periodicity for sanction and rejection. The table also reveals a lower periodicity for sanction and higher for rejection to sole proprietary units, partnership firms and private companies and

vice-versa in respect of public companies, co-operative societies and joint Hindu family units. The periodicity of sanction to various new units is lower than it is for existing units which indicates a negative relationship and the value of rank correlation is -.114. In case of rejection, such periodicity of new units of sole proprietary units, partnership firms and private companies is lower than that of existing units, but the reverse is true for co-operative societies and joint Hindu family units and the value of rank correlation is -.63. Thus the average period for sanction and rejection in respect of various borrowing units has witnessed a negative relationship. This negative relationship also exists in respect of sanction and rejection of the applications from new as well as existing units.

Denominations of Applications :

The corporation, from its own funds, is authorised to grant financial assistance between Rs. 1-20 lakhs, but during earlier years of its existence it has considered applications of even lower denomination, which is as follows :-

Table 9.7

Denominations of Loan Applications

(Rs. in lakhs)

Size of Application	Sanction			Rejection			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
0-5	48	117.31	57	39	98.06	79	87	215.37	65
5-10	9	59.80	33	3	25.50	21	12	95.30	29
Above 10	1	20.00	10	-	--	-	-	20.00	6
Total :	58	207.11	100	42	123.56	100	100	330.67	100

The table indicates that most of the applications, sanctioned or rejected, have denomination below Rs. 5.[illegible] lakhs, 48 out of 58 sanctioned and 39 out of 42 rejected applications belong to this denomination group. Amountwise, out of the total sanction under the sample, nearly 57 percent belong to the applications having denominations below Rs. 5 lakhs, where as in case of rejected applications this percentage is 79. There is negative association between below Rs. 5 lakhs denomination and their sanction, the value of which in terms of Yule's co-efficient of association is -.46. In other words below Rs. 5 lakhs denomination and rejection has got positive association, as only a few applications of higher denomination have been rejected.

The period of existence of the borrowing units also have some impact on the denomination of the loan applications which has been shown in the following table :-

Table 9.8

Denomination of Loan Applications of New As Well As Existing Borrowing Units

Number of Applications

Size of Applications (Rs. in lakhs)	Sanctions		Rejections	
	New	Existing	New	Existing
0-5	26	22	21	18
5-10	2	7	1	2
Above 10	--	1	--	--
Total :	28	30	22	20

The table suggests that generally applications of lower denomination received by the corporation have been from new industrial units. The applications of new units with a denomination below Rs. 5 lakhs and their sanction or rejection have a positive association, as the value of Yule's co-efficient of association in regard to sanction and rejection is +.61 and +.40 respectively. Equivalent values of co-efficient of association are obtained in respect of applications of existing units having denominations above Rs. 5 lakhs. Thus, the higher denominations are generally found in respect of existing industrial

units whereas lower denominations are more popular with new industrial units.

The denominations of the loan applications also reveal their dependence on the purpose (i.e. for acquisition of land, construction of building, purchase of plant and machinery and for meeting working capital requirements) for which the loan is desired. This is as follows :-

... the Purpose of the Loan

(Rs. in lakhs)

Size of pplication	Total		Land			Building			Pland and Machinery			Working Capit	
	No.	Amount	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount
0 - 5	87	215.37	13	6.53	3	69	70.74	33	82	124.94	58	25	13.56
5 -10	12	95.30	1	0.90	1	10	26.70	28	12	67.20	71	1	0.50
Above - 10	1	20.00	--	--	-	1	10.00	50	1	10.00	50	--	--
Total:	100	330.67	14	7.43	2	80	107.04	32	95	202.14	61	26	14.06

The table reveals that financial requirement for acquisition of land is not very significant as out of 100 applicants only 14 borrowers demand fund for this purpose and that too is equal to merely 2% of the total demand under the sample. Similar is the case with requirement for working capital, where only 26 units demand funds equal to merely 4% of the total demand under consideration. Most of the funds are demanded for construction of building and purchase of plant and machinery and the funds demanded for above purposes are 32% and 61% respectively. Further, the table reveals that in respect of applications having denominations below 5 lakhs the demand of funds for the purposes of acquisition of land, construction of building and meeting working capital requirement is higher as compared to applications having denominations above Rs. 5 lakhs. On the other hand the demand of funds for purchase of plant and machinery has witnessed a rising trend alongwith increase in the denomination of the loan applications. Number-wise, the popularity of demand of funds for acquisition of land and meeting working capital requirement has also declined tremendously, but in the case of demand of funds for construction of building and purchase of plant and machinery proportionate number of applications demanding funds for these purposes has been increasing along with increase in the denomination.

Constitutional set-up of borrowing units seems to have some impact on the denomination of loan applications which has been analysed as follows :-

(Rs. in lakhs)

Size of Application	Total		Proprietary Units			Partnership Firms			Private Company			Public Company			Others*	
	No.	Amount	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount
0-5	87	215.37	22	44.76	100	38	94.10	73	17	43.26	46	3	13.50	31	7	19.75
5-10	12	95.30	--	--	--	5	34.10	27	6	51.20	54	1	10.00	23	-	--
Above -10	[illegible]	20.00	--	--	--	--	--	--	--	--	--	1	20.00	46	-	--
Total:	100	330.67	22	44.76	100	43	128.20	100	23	94.46	100	5	43.50	100	7	19.75

*Include Joint Hindu Family Units and Co-operative Societies.

The table reveals that all applications from sole proprietary units, joint Hindu family units and co-operative societies and most of the applications from partnership firms have denominations below Rs. 5 lakhs. Amount-wise, nearly three-fourths of the total amount of application from partnership firms belong to applications of lower denomination and the rest belong to applications of higher denomination. Number-wise almost similar trend is found in respect of private and public companies, yet, amountwise, a little less than half of the total amount of applications from private companies belong to the denomination group below Rs. 5 lakhs and the rest belong to the denomination group of Rs. 5-10 lakhs. In case of public companies only 31% of the total amount of applications from such units relates to the lowest denomination group and 46% to the highest denomination-group. Thus it can be concluded that lower denomination- of loan applications is most popular with sole proprietary concerns, joint Hindu family units, and co-operative societies; whereas medium denomination is found in case of applications from partnership firms. Higher denomination of loan applications has been popular with private companies and public companies have got highest denomination of loan applications.

Chapter X

BORROWING UNITS AND PURPOSES OF THEIR LOANS

The corporation, since its inception, was authorised to grant financial assistance to :-

1. Sole Proprietary Units;
2. Joint Hindu Family Concerns;
3. Partnership Firms;
4. Private Companies;
5. Public Companies; and
6. Co-operative Societies.

Recently, the corporation has dropped from the above list the joint Hindu family concerns because of difficulties in determining the ownership of properties offered by them as securities. The following table shows the relative position of each type of the borrowing units :-

... Set up and Position of Various Borrowing Units

year (Period) ?

(Rs. in lakhs)

Borrowing Units	Sanction			Rejection			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
1. Sole Proprietary Units	11	17.27	8	11	27.49	22	22	44.76	14
2. Joint Hindu Family	1	2.15	1	3	9.00	7	4	11.15	3.
3. Partnership Firms	24	78.39	38	19	49.81	41	43	128.20	39
4. Private Companies	17	68.80	33	6	25.66	21	23	94.46	28
5. Public Companies	4	38.50	19	1	5.00	4	5	43.50	13
6. Co-operative Societies	1	2.00	1	2	6.60	5	3	8.60	2.5
Total :	58	207.11	100	42	123.56	100	100	330.67	100

The table reveals that the corporation has considered the highest number of applications from partnership firms, as out of 100 applications under the sample 43 belong to such concerns. Amount-wise also, out of the total amount of applications 39% belong to partnership firms. Next most popular borrowing units are private companies, in respect of which 23 applications amounting to nearly 28% of the total amount on all applications have been considered. Sole proprietary units occupy the third place in respect of number as well as amount of applications.

It is further revealed that the corporation has given favourable considereation to public and private companies and partnership firms. Relatively equal consideration is evinced in the case of sole proprietary units, but its posture towards joint Hindu family units and co-operative societies has not been favourable. Out of total number of 5 applications from public companies, 4 applications worth Rs. 38.5 lakhs have been sanctioned andonly one application has been rejected. Similarly out of 23 loan applications from private companies 17 have been sanctioned and only 6 have been rejected. In the case of the partnership firms out of the total number of 43 applications 24 have been sanctioned and only 19 have been rejected. The number of sanctioned applications of sole proprietary concerns is the same as that of the rejected ones, but amount-wise, the amount of rejection is higher than that of sanction. In the case of joint Hindu family units and co-operative societies the number of applications sanctioned is lesser and that of the rejected ones considerably larger.

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The value of rank corelation between the number of sanctions and rejections in case of various borrowing units is +.77. The correlation results from the fact in the case of few units the number of sanctioned applications is greater than that of the rejected ones, whereas reverse is the case in regard to certain other units. Taking the amount of sanction and rejection into consideration, the value of such correlation is merely +.54, which gives the impression of a vast difference in the average size of applications from various borrowing units.

The position of average size of applications from various borrowing units can be determined as follows :-

Table 10.2

Average Size of Sanctioned as well as Rejected Loan Applications

(Rs. in lakhs)

Borrowing Units	Sanctions		Rejections		Total	
£	Amount	%*	Amount	%*	Amount	%*
1. Sole Proprietary Units	1.57	44	2.50	85	2.03	61
2. Joint Hindu Family	2.15	61	3.00	102	2.79	84
3. Partnership Firms	3.27	91	2.62	90	2.98	90
4. Private Companies	4.05	113	4.28	145	4.11	121
5. Public Companies	9.62	270	5.00	170	8.70	263
6. Co-operative Societies	2.00	56	3.30	112	2.87	87
Total	3.57	100	2.94	100	3.31	100

*This is percentage average sanction and rejection of all

The table reveals that although the average amount of all applications is Rs. 3.31 lakhs, yet the same for the sanctioned applications is Rs. 3.57 lakhs, while it is merely Rs. 2.94 lakhs in respect of the rejected applications. This obviously indicates that the corporation is inclined to sanction applications of higher denomination, only that the degree of its favour varies as per the constitutional set-up of the borrowing units. Highest average denomination is in respect of applications from public companies, next come in order, the private companies, partnership firms, co-operative societies, joint Hindu family units and sole proprietary units. A comparison of average denomination of sanctioned and rejected applications reveals that the corporation has sanctioned applications of lower average denominations from sole proprietary units, joint Hindu family units and co-operative societies while reverse is the case with partnership firms and public companies. On the other hand in case of the private companies the average size of sanctioned as well as rejected applications is almost the same.

The rank correlation between the average size of the sanctioned and rejected applications of various borrowing units, is *.77, which suggests the possibility of getting higher denomination for sanction and lower denomination for rejection in a few cases and vice-versa in the case of others.

Age of various borrowing units have also some impact on the sanction or rejection of the loan applications, which is as follows :-

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Age of various borrowing units have also some impact on the sanction or rejection of the loan applications, which is as follows :-

Age of Borrowing Units and Consideration of Loan Applications

(Rs. in lakh

Borrowing Units	Sanctions						Rejection					
	New Units			Existing Units			New Units			Existing		
	No.	Amount		No.	Amount		No.	Amount		No.	Amount	
		Total	Average		Total	Average		Total	Average		Total	A
1. Sole Proprietary Units	8	13.12	1.64	3	4.15	1.38	8	19.89	2.49	3	7.60	
2. Joint Hindu Family	1	2.15	2.15	-	--	--	2	7.00	3.50	1	2.00	
3. Partnership Firms	12	42.49	3.54	12	35.90	2.99	9	25.72	2.86	10	24.09	
4. Private Companies	7	19.35	2.76	10	49.45	4.95	2	9.10	4.55	4	16.56	
5. Public Companies	-	--	--	4	38.50	9.62	-	--	--	1	5.00	
6. Co-operative Societies	-	--	--	1	2.00	2.00	1	4.60	4.60	1	2.00	2
Total :	28	77.11	2.75	30	130.00	4.33	22	66.31	3.01	20	57.25	2

The table shows that the corporation prefers new concerns to existing units in the case of sole proprietary units, partnership firms and joint Hindu family units. In all other cases the corporation has favoured applications from existing industrial units. Amongst new concerns getting financial assistance from the corporation partnership firms are most popular in respect of number as well as amount. Similarly amongst existing units, private companies are most popular, at least in respect of the amount of applications sanctioned. Sanction to various new and existing borrowing units has got positive rank correlation the value of which is merely +.60.

Similarly, in respect of rejection, the corporation has rejected more applications from new units and less from existing units belonging to sole proprietary units and joint Hindu family units while reverse is the case with units belonging to partnership firms, private and public companies and co-operative societies. Highest rejection has been the lot of partnership firms. Rejection of applications from various new and existing borrowing units have a rank correlation equal to +.89 which indeed is a high degree of positive relationship and suggests that much distinction has not been made between various new as well as existing borrowing units in respect of rejection.

The average size of the loan applications of various borrowing units differ according to the period of their existence. It is obvious that highest average denomination of the sanctioned and rejected loan applications is that of existing public companies

and the lowest one is that of the existing sole proprietary concerns. It is also clear that sanctioned applications of new sole proprietary concerns and partnership firms have denominations higher than that of the existing units and reverse is the case with other borrowing units with the exception of the sole proprietary concerns the denomination of the rejected applications from all other new units is higher than that of the existing units.

Purpose of the Loan :

The corporation is authorised to consider financial assistance to various types of borrowing units for creating permanent assets i.e. land, building, plant and machinery, and, to a limited extent, for working capital. Funds may be demanded for all or a few of the above mentioned purposes through a single loan application. The purposes of the loans applied for are as follows :

Table 10.4

Purposes of Loans of Sanctioned and Rejected Applications

(Rs. in lakhs)

Purpose	Sanctioned			Rejected			Total		
	No.	Amount	%*	No.	Amount	%*	No.	Amount	%*
1. Land	6	3.5	47	8	3.93	53	14	7.43	2
2. Building	45	61.62	58	35	45.42	42	80	107.04	32
3. Plant and Machinery	56	137.41	68	39	64.73	32	95	202.14	61
4. Working Capital	9	4.58	33	17	9.48	67	26	14.06	5
Total :	58	207.11	62.5	42	123.56	37.5	100	330.67	100

*This is the percentage of respective totals for each purpose.

The table reveals that out of a sample of 100 applications for Rs. 330.67 lakhs, only 14 applicants applied for loan of Rs. 7.43 lakhs for acquisition of land, which is merely 2% of the total amount of all the applications taken into consideration. It may also be noted that out of the total number of these applications more than half stand rejected. Similarly the demand of funds for working capital is also very unpopular, as only 26 applicants require Rs. 14.06 lakhs for this purpose and the major part of this belongs to the rejected applications. The demand of funds for construction of buildings is more popular, as 80

applicants require Rs. 107.04 lakhs for this purpose, of whom more than half of the total number is that of the sanctioned cases. Most popular is the demand of funds for purchase of plant and machinery, as out of 100 applications 95 require financial assistance amounting to Rs. 202.14 lakhs for this purpose, which is 61 percent of the total amount and most of these applications belong to the sanctioned group.

The table also reveals that the demand of fund for working capital and acquisition of land it is very unpopular as, despite the amount of their demand being considerably low, only 33% and 47% of the total amount demanded for these purposes have been sanctioned. The other two purposes (i.e. construction of building and purchase of plant and machinery) have been very popular with the corporation, firstly because the funds demanded for these purposes have been significant and secondly because the percentage of sanction to total demand for these purposes is 58 and 68 respectively.

The amounts included in the loan applications for various purposes vary according to the period of the existence of various borrowing units, which is as follows :-

(Rs. in lakhs)

Purpose	Sanction						Rejection					
	New Units			Existing Units			New Units			Existing Units		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	[illegible]
1. Land	4	2.10	3	2	1.40	1	6	2.62	4	2	1.31	[illegible]
2. Building	22	22.42	29	23	39.20	30	19	26.55	41	16	18.87	3[illegible]
3. Plant and Machinery	26	49.13	64	30	88.28	68	20	31.39	47	19	33.34	5[illegible]
4. Working Capital	4	3.46	4	5	1.12	1	8	5.75	8	9	3.73	[illegible]
Total:	28	77.11	100	30	130.00	100	22	66.31	100	20	57.25	10[illegible]

The table suggests that amongst sanctioned applications generally new units apply for financial assistance for acquisition of land, as out of 6 units applying for the above purpose four come from the new units. Reverse is the case in respect of the demand of funds for working capital. Existing units are more particular in requesting financial assistances for plant and machinery, as all the 30 applications from existing units require funds for this purpose whereas in the case of new units only 26 out of 28 units want financial assistance for this purpose. But regarding the demand of funds for construction of buildings reverse is the case, as only 23 out of 30 applications from existing units demand funds for this purpose whereas such demand in case of new units has been put by 22 out of 28 applications.

Thus it can be concluded that demand of funds for purchasing plant and machinery is more popular with existing units as the value of Yule's co-efficient of association for existing units demanding funds for this purpose is +.62. But the demand of funds for acquisition of land, is more popular, with new units as the value of Yule's co-efficient of association in their case is +.48.

The value of the Yule's Co-efficient of association in case of existing units demanding funds for acquisition of plant and machinery on rejected applications is +.31 whereas on sanctioned applications it is +1. This indicates the corporation

favour to such demand. Similarly, the above value of co-efficient of association for new units demanding funds for acquisition of land is +.40 for sanctioned applications and +.54 for rejected applications, which indicates a disfavour for such demand.

In respect of demand of funds for construction of building and for meeting working capital requirement the value of co-efficient of association for sanctioned as well as rejected applications is more or less centres round +.1 or -.1 respectively which itself is a negligible value hence indicates neither favour nor disfavour for such purposes.

Further analysis of the purpose of the loans can be made taking into account the percentage of each purpose with the total amount of sanctioned as well as rejected applications with the help of the following table:-

Table 10.6

Proportion of Funds Demanded for each Purpose on Loan Applications

Percentage of Amount of Application	Sanctioned Applications				Rejected Applications			
	Land	Building	Machinery	Working	Land	Building	Machinery	Working
0-20	4	8	-	7	7	7	4	12
20-40	2	17	6	1	1	10	11	4
40-50	-	8	12	-	-	5	6	-
50-60	-	8	6	-	-	4	3	-
60-80	-	4	14	-	-	6	7	-
80-100	-	-	18	1	-	3	8	1
Total :	6	45	56	9	8	35	39	17

The table reveals that the fund demanded for acquisition of land in respect of sanctioned as well as rejected applications is very nominal amongst the four, because all applications demanding fund for such purpose have demanded less than 40% (more accurately 30%) of the total amount on each application. The financial need for the working capital has generally gone upto 20% of the total amount on each application, but in exceptional cases it has come even to highest percentage group, as two applications (one

sanctioned and the other rejected) require funds wholly for this purpose. In case of sanctioned applications 33 out of 55 demand funds below 50% of the total amount on each of them for construction of buildings, but in respect of rejected applications 22 out of 35 have demanded funds below 50% of the total amount on each of them for the above purpose. Thus the corporation favours the applications demanding smaller sums for construction of building as the value of Yule's co-efficient of association between applications demanding less than 50% of the total amount on each of them and their sanction is +.25.

Considering the demand for purchasing plant and machinery and it's sanction, out of 56 units demanding funds for this purpose only 18 applications require funds less than 50 percent of the total amount on each application. Whereas, in case of rejected applications out of 39 units requiring funds for this purpose 21 units demand funds below 50% of the total amount on each application. Thus the corporation gives favourable consideration to applications requiring a higher proportion of funds forpurchasing plant and machinery, as the value of Yule's co-efficient of association between the demand of funds for plant and machinery above 50% of the amount of respective application and their sanction is +.43.

The constitutional set-up of the borrowing units and the purpose of the loan also have some relation which is shown with the help of the following table :-

... of the borrowing Units

(Rs. in lakhs)

Borrowing Units	Land			Building			Plant & Machinery			Working Capital			Tota	
	No.	Amount	%*	No.	Amount	%*	No.	Amount	%*	No.	Amount	%*	No.	Amc
1. Sole Proprietary Units	1	0.20	1	9	6.28	36	11	10.74	63	1	.05	00	11	11.
2. Joint Hindu Family Units	-	--	-	1	0.90	42	1	1.25	58	-	--	--	1	2.
3. Partnership Firms	2	1.40	20	18	20.07	26	23	53.44	68	4	3.48	4	24	78.
4. Public Companies	1	0.50	1	2	13.50	35	3	24.50	64	-	--	-	4	38.
5. Private Companies	2	1.40	2.0	14	19.87	29	17	46.48	68	4	1.05	1	17	68.
6. Co-operative Societies	-	-	-	1	1.00	50	1	1.00	50	-	--	-	--	2.0
Total :	6	3.50	2	45	64.62	30	56	137.41	66	9	4.58	2	58	207.1

*This is percentage of total amount demanded by respective borrowing units.

The table shows that the number and amount of sanctioned applications from joint Hindu family units and co-operative societies is insignificant covering each merely one percent of the total amount of applications. The highest amount of sanctioned applications belong to the partnership firms, followed by private companies, public companies and sole proprietary units. Similarly, out of the total amount of sanctioned applications, the amount demanded for acquisition of land and working capital is only 2%. On an average, the fund demanded for construction of building and purchase of plant and machinery is 30% and 66% respectively of the total amount demanded by sanctioned applications but different borrowing units have attached varying importance to the above two main purposes of the loan. The partnership firms and private companies, on an average, demand more funds for purchase of plant and machinery and less for construction of building as compared to the above average percentage. Whereas, reverse is true with sole proprietary units and public companies because these units demand more funds for construction of building and less for purchase of plant and machinery.

Chapter XI

COST OF PROJECTS AND THEIR FINANCING

The cost of projects to be financed by the corporation comprises of the expenditures on acquisition of land, construction of building, purchase of plant and machinery, technical know-how, preliminary expenses and other items like working capital etc. This is financed by raising capital, issuing debentures, taking loans, accepting deposits from the public and government subsidy and internal cash accruals of the existing borrowing units. All these sources of finance have been classified into two broad categories :-

1. Owned sources, which include funds from capital, government subsidy and internal cash accruals; and,

2. Loaned sources, which include funds from debentures, long-term loans including loans from the U. P. Financial Corporation, unsecured loans, deposits and deferred payments.

The dependence of the borrowing units on the above-mentioned two categories at various levels of the cost of projects and contribution of the loan provided by the U. P. Financial Corporation in financing of the projects have been shown below :-

Cost of Projects and Dependence on Owned and Loaned Finances

(Rs. in lakhs)

Levels of cost of projects	Projects		Owned Finances		Loaned Finances					
					Corporation Loan		Other Loans		Total	
	No.	Amount	Amount	%	Amount	%	Amount	%	Amount	%
0 - 5	53	155.53	44.96	30	95.43	61	15.14	9	110.57	70
5 - 10	31	219.57	68.49	31	120.24	55	30.34	14	151.08	69
10 - 15	7	87.37	42.87	49	38.50	44	6.00	7	44.50	51
15 & Above	9	302.30	125.91	42	76.50	25	99.39	33	176.39	58
Total :	100	764.77	282.23	37	330.67	43	151.87	20	482.54	63

The table reveals that, on an average, 63% of the cost of projects is financed by loaned sources and the remaining 37% by owned sources. At the low levels of the cost of projects, the dependence on the loaned finance, particularly on the corporation's loans, is high. At the higher levels of the cost of projects the dependence on the owned finances has gone up from 30% to 49% of the total cost of projects. The value of Yule's co-efficient of association between cost of projects above Rs. 10 lakhs and dependence on owned sources is +.23 which confirms the above trend of dependence.

Out of the total loaned finance more than two-thirds was expected from the corporation, and the rest was to be arranged from other sources. The table shows that, on an average, 43% and 20% of the cost of the projects are to be borrowed from the corporation and other sources respectively. The dependence on the corporation is greater in respect of projects with lower cost. Along with increase in the cost of projects the percentage of the corporation's loan has declined from 61% to 25%, while the dependence on loans from the other sources has increased. The above being the case the value of Yule's co-efficient of association between cost of projects below Rs. 10 lakhs and loans from the corporation is +.59.

The dependence on the various sources of finance also determines the sanction or rejection of the applications, which is as follows :-

Cost of Projects and Sources of Their Financing

(Rs. in lakhs)

Cost of Projects	Projects		Owned Finances		Loaned Finances					
					Corporation Loan		Other Loans		Total	
	No.	Amount	Amount	%	Amount	%	Amount	%	Amount	%
0- 5	29	83.02	25.14	30	52.39	63	5.49	7	57.88	70
5-10	(24)	(72.51)	(19.82)	(28)	(43.04)	(59)	(9.65)	(13)	(52.69)	(72)
5-10	17 (14)	121.35 (98.22)	34.94 (33.55)	29 (34)	68.22 (52.02)	56 (53)	18.19 (12.65)	15 (13)	86.41 (64.67)	71 (66)
10-15	6 (1)	75.37 (12.00)	38.87 (4.00)	51 (33)	30.50 (8.00)	41 (67)	6.00 --	8 -	36.50 (8.00	49 (67)
Above 15	6 (3)	252.98 (49.32)	107.55 (18.36)	43 (37)	56.00 (20.50)	22 (42)	89.43 (10.46)	35 (21)	145.43 (30.96)	57 (63)
Total:	58 (42)	532.98 (232.05)	206.50 (75.73)	39 (33)	207.11 (123.56)	39 (53)	119.11 (32.76)	22 (14)	326.22 (156.32)	61 (67)

Note : Figures in brackets relate to rejected applications.

The table reveals that in respect of the sanctioned applications the funds from the corporation and from the owned sources are expected to contribute 39% each of the total cost of the projects and the rest 22% is to be financed by loans taken from other sources. This varies according to the levels of the cost of projects, that is, at the lowest level the contribution of the corporation is the highest, while it is lower from the owned sources and the lowest from other sources of loan. The proportionate contribution of the corporation has declined tremendously from 63% at the cost level below Rs. 5 lakhs to 22% at the cost level above Rs. 15 lakhs. On the other hand the other two sources of finance are marked by an increase along with increase in the cost of projects. The loans from the other sources have gone up from 7% at the lowest levels of the cost of project to 35% for the projects having cost above Rs. 15 lakhs. Similarly owned finances, at the level of cost of projects below Rs. 5 lakhs, contribute merely 30% of the cost while its contribution goes up to 51% at the cost level of Rs. 10-15 lakhs.

The table also shows that the applications from industrial units, having a greater dependence on the corporation loans, have been rejected. On an average the rejected applications have demanded 53% of the total cost of the projects, where as the same on sanctioned applications is only 39%. Thus the corporation favours applications from such units as have other

sources of finance and rely less on the funds provided by the corporation. The relative position of the loans applied for by the rejected applications has declined alongwith increase in the cost of projects, but not as constantly as is the case with sanctioned applications. The loans from other sources show an increasing trend alongwith increase in the cost of projects. Proportionate contribution of owned finances in the case of rejected applications has increased very slowly, and, on an average, it is nearly 33% of the cost of projects, which is 39% in the case of sanctioned applications. Thus, the borrowing units where owned sources of finance are less and want to depend heavily on the corporation's loans are disfavoured.

The table further reveals that the Corporation has considered a large number of applications from smaller projects, but there is a negative association between smaller projects and their sanction, the value of the Yule's co-efficient of association being -.425. Thus, it can be concluded that the Corporation favours larger projects, but in actual practice it receives very small number of applications from them, there being many other financial institutions in the country which provide funds to these projects.

The cost of the projects of the new as well as existing units and their financing can also be analysed with the help of the following table :-

(Rs. in lakhs)

st of ojects	Sanction								Rejection						O I
	Projects		Owned Finance		Corporation Loan		Other Loan		Projects		Owned Finance		Corporation Loan		
	No.	Amount	Amount	%	Amount	%	Amount	%	No.	Amount	Amount	%	Amount	%	Am
-5	13	40.87	18.08	44	18.44	55	4.35	11	11	38.73	12.64	33	20.99	54	5.
	(16)	(42.15)	(7.09)	(16)	(33.95)	(81)	(1.11)	(3)	(13)	(33.78)	(8.04)	(24)	(20.05)	(65)	(3.
-10	10	68.94	25.12	36	35.67	52	8.15	12	9	60.63	19.85	33	34.82	57	5.
	(7)	(52.41)	(9.82)	(18)	(32.55)	(63)	(10.04)	(19)	(5)	(37.59)	(12.84)	(35)	(17.20)	(45)	(7.
15	3	36.25	21.75	60	11.50	32	2.00	8	-	-	-	-	-	-	-
	(3)	(39.12)	(17.12)	(43)	(19.00)	(49)	(3.00)	(8)	(1)	(12.00)	(4.00)	(33)	(8.00)	(67)	(-)
and ve	2	79.61	30.50	39	11.50	14	37.61	47	2	33.96	13.00	38	10.50	31	10.
	(4)	(173.37)	(77.05)	(44)	(44.50)	(26)	(51.82)	(30)	(1)	(15.36)	(5.36)	(33)	(10000)	(67)	(-)
al:	28	225.67	95.45	43	77.11	34	53.11	23	22	133.32	45.49	34	66.31	50	21.
	(30)	(307.05)	(111.08)	(37)	(130.00)	(42)	(65.97)	(21)	(20)	(98.73)	(30.24)	(31)	(57.25)	(58)	(11.

Note : Figures in brackets relate to existing units.

The table reveals that through their sanctioned applications, the new units, on an average, demand 34% of the total cost of projects but it is 50% in the case of rejected applications. In the case of existing units such demand sanctioned and rejected comes to be 42% and 58% of total cost of projects respectively. This indicates higher demand of funds by the existing units as compared to new units. The percentage also varies at different levels of cost of projects. The percentage of the demand with regard to the total cost of projects of both the sanctioned and rejected applications of new units is higher as far as projects costing below Rs. 10 lakhs are concerned, but the reverse is the case with the projects costing above Rs. 10 lakhs. This has been considerably low (i.e. merely 14%) in respect of sanctioned applications of the projects of new units costing above Rs. 15 lakhs. In this case the corporation favours applications of these borrowing units which rely more on owned finance and less on the funds from the corporation, as on an average 43% of the total cost of projects has been financed by owned sources and the applicants relying less on their owned finance have been disfavoured.

Loans from other sources have also contributed significantly to the total finance of the new units whose applications have been sanctioned and any short fall in the funds from other sources would have placed the applications in the category of the rejected ones. As the average percentage of the contribution from other sources in respect of sanctioned application is 23, whereas it is 16 in the case of rejected ones.

Similarly, in the case of existing units, the sanctioned applications put demands for proportionately higher amounts from the corporation although their owned sources are also contributing almost equal sum in the total finances of the projects. The financial contribution of the corporation presents a rising trend alongwith increase in the cost of projects, but the reverse is true with their owned finances. The contributions from other sources have increased alongwith increase in the cost of projects, on an average they are more than one-fifth of the total cost of projects.

In case of rejected applications from existing units reliance on funds from the corporation has been more as compared to the same in respect of sanctioned applications, that is 57% of the total cost of projects of the rejected applications. This varies from 45% to 67% at different levels of the cost of projects This percentage has been lower as compared to the sanctioned applications of projects costing below Rs. 10 lakhs, but higher in respect of projects costing above Rs. 10 lakhs. Owned finances and loans from other source have been less popular with existing units in respect of rejection as they were expected to contribute only 43% of the total cost of projects, leaving 57% of the total cost to be financed by the loans from the corporation.

A comparison of the position of cost of projects relating to sanctioned applications of new with those of existing units reveals that the overall average cost of projects, comes to be Rs. 8.06 lakhs. In the case of existing units it is Rs. 10.23

lakhs. Existing units depend more on loans and less on owned finances, as the percentage of contribution from the two sources to the total cost of projects is 63 and 37 respectively and reverse is the case with the new units. The corporation has rejected applications of larger projects from new units and those of smaller from existing units, as the average cost of their projects is Rs. 6.06 lakhs and Rs. 4.98 lakhs respectively. Both these units relied heavily on the loaned finance as its percentage is 66 and 69 respectively. This further reveals that the corporation favours applications from larger projects.

The position of the cost of projects of all types of borrowing units and their financing can be further analysed with the help of the following table :-

(Rs. in lakhs)

Borrowing Units	Cost of Projects			Means of Financing					
	No.	Total Amount	Average Amount	Corporation Loan		Other Loan		Owned Fi[illegible]	
				Amount	%	Amount	%	Amount	
Sole Proprietary Units	11 (11)	32.87 (46.34)	3.00 (4.21)	17.27 (27.49)	52 (60)	2.30 (4.84)	7 (11)	13.30 (14.01)	4[illegible] (2[illegible]
Joint Hindu Family Units	1 (3)	4.43 (28.47)	4.43 (9.49)	2.15 (9.00)	48 (32)	-- (6.00)	-- (21)	2.23 (13.47)	5[illegible] (4[illegible]
Partnership Firms	24 (19)	162.67 (86.01)	6.78 (4.53)	78.39 (49.81)	48 (58)	30.14 (13.21)	18 (15)	54.1[illegible] (23.07)	3[illegible] (2[illegible]
Public Companies	4 (1)	90.22 (10.00)	22.55 (10.00)	38.50 (5.00)	43 (50)	2.00 --	13 --	39.72 (5.00)	44 (50
Private Companies	17 (6)	239.53 (51.17)	14.09 (8.53)	68.80 (25.66)	29 (50)	72.98 (8.11)	30 (16)	97.75 (77.40)	41 (34
Co-operative Societies	1 (2)	3.00 (9.98)	3.00 (4.99)	2.00 (6.60)	67 (66)	-- (0.60)	-- (6)	1.00 (2.78)	33 (28
Total :	58 (42)	532.72 (232.05)	9.18 (5.52)	207.11 (123.56)	39 (53)	119.11 (32.96)	22 (14)	206.50 (75.73)	39 (330

Note : Figures in bracket relate to rejected application.

From the table it is clear that the average cost of projects related to all sanctioned applications is higher than that of the rejected applications. The same is true in respect of sanctioned and rejected applications from partnership firms, public and private companies, but reverse is the case with applications from sole proprietary units, joint Hindu family units and co-operative societies. Thus the corporation prefers larger projects of former group and smaller projects of the latter group of the borrowing units.

The table further reveals that except in the ease of the joint Hindu family units, all other borrowing units depend more on the loaned and less on the owned finances. Amongst their loaned finances the corporation's contribution plays a significant role. Though the corporation has favoured those applicants who have shown lesser dependence on its loans, as the proportionate demand of corporation's loan on sanctioned applications of all borrowing units have been less than it is in the case of the rejected applications. This is true for all types of borrowing units except the joint Hindu family units and co-operative societies. Proportionately greatest dependence on the corporation's loan is shown by the co-operative societies, their demand being 67% of the total cost of projects. Then come the sole proprietary units, joint Hindu family units, partnership firms and public companies, which require funds equal to nearly one-half of the total cost of projects. The private companies occupy the last place in the above order,

which on their sanctioned applications demand merely 29% of the total cost of the project.

In respect of sanctioned applications owned finances contribute a sum almost equal to the loan from the corporation, but on the rejected applications it is less. This is true for all the borrowing units except public companies, where owned finance on rejected applications happens to be more than the same on the sanctioned ones. The owned source seems to be important for the joint Hindu family units, as it contributes more than half of the total cost of their projects. This is followed by public and private companies and sole proprietary units which get more than two-fifths of the total cost of projects from this source. Partnership firms and co-operative societies get least from this source, that is, nearly one-third of their total cost of projects.

Loans from other sources have contributed, on an average, more than one-fifth of the total cost of projects. This has been very important source of finance for private companies, but all other borrowing units attach little importance to it.

The amount of the corporation's loan and the cost of the projects can further be analysed with regard to the direction of the variations between the two with the help of the following table :-

Cost of Projects and the Amount of Application

Applications Cost (Rs. in lakhs)	0 - 5	5 - 10	10 - 15	15 and above	Total
0 - 5	29 53 24	13 27 14	5 5 -	1 2 1	48 87 39
5 - 10	- - -	4 4 -	1 2 1	4 6 2	9 12 3
15 and above	- - -	- - -	- - -	1 1 -	1 1 -
Total :	29 53 24	17 31 14	6 7 1	6 9 3	58 100 42

Note : Figures in upper corner relate to the sanctioned and in lower corner relate to the rejected applications and those in the middle are the total sum of the two.

Cost of Projects and the Amount of Application

Applications Cost (Rs. in lakhs)	0 - 5	5 - 10	10 - 15	15 and above	Total
0 - 5	29 53 24	13 27 14	5 5 -	1 2 1	48 87 39
5 - 10	- - -	4 4 -	1 2 1	4 6 2	9 12 3
15 and above	- - -	- - -	- - -	1 1 -	1 1 -
Total :	29 53 24	17 31 14	6 7 1	6 9 3	58 100 42

Note : Figures in upper corner relate to the sanctioned and in lower corner relate to the rejected applications and those in the middle are the total sum of the two.

The table reveals that out of the total number of 100 applications under the sample 87 applications have denomination below Rs. 5 lakhs out of which 53 applications belong to projects having cost below Rs. 5 lakhs and the rest of the applications are for the larger projects. All except one application belong to denomination groups below Rs. 10 lakhs. The analysis of the relationship between the cost of projects and the denominations of the applications at all levels indicate a low degree of positive relation as the value of the co-efficient of correlation is $+.64 \pm .04$. This means that such relationship varies between +.60 to +.68 in case of other similar samples from the same universe. Thus, even the highest value of positive correlation, i.e. +.68, does not indicate a very high degree of such relationship. This is because of the presence of lower demand in respect of projects of even higher costs.

The analysis of sanctioned applications made separately further reveals still lower degree of co-efficient of correlation, its value being $+.58 \pm .06$, whereas in respect of the rejected applications value of r is $+.90 \pm .02$.

It may be noted that the Corporation has discouraged the applications of higher denominations even in respect of the projects of higher costs, as such the applications of high denominations with even high cost of projects have greater possibility of rejection than sanction.

Chapter XII

ANALYSIS OF SANCTIONS

The corporation, from its own funds, is authorised to sanction financial assistance upto Rs. 20 lakhs, but generally it has been much below this maximum limit. The corporation, after a thorough scrutiny of the individual projects, sanctions an amount which, together with the funds from other sources, is considered to be sufficient for their financing. That is why the sanctioned amount in a few cases is greater than the amount originally applied for, although in most of the cases either the amount of sanction is equal to or less than the original demand. This fact can be analysed in the following table :-

Table 12.1

Original Demand and the Amount Sanctioned

(Rs. in lakhs)

Quantum of Sanctions	Applications			Sanctions		% of Sanction to application
	No.	Total Amount	Average Amount	Amount	% to total	
Above original Demand	5	17.77	3.55	21.50	11	120
Equal to original Demand	25	104.60	4.19	104.60	56	100
Below original Demand	28	84.74	3.03	62.32	33	74
Total :	58	207.11	3.57	188.42	100	91

The table reveals that out of the total number of 58 sanctioned applications five get a sanction of 120% of their original demand, although in a few exceptional cases this percentage has gone upto 140%. On the other hand, on 28 sanctioned applications, the average sanction has been 74% of the amount applied for and the remaining 25 applications have been sanctioned in full. Number-wise, sanctions below the amount of applications are more popular, but ~~the~~ amount-wise the popularity centres round the sanctions equal to the amounts originally applied for. Sanctions above the original demand is least popular from both points of view, which signifies a careful scrutiny of the projects by the corporations. The table further reveals that the applications of higher denominations are accorded sanctions either more or equal to the amount applied for but in the case of the applications of lower denominations, the financial assistance sanctioned is below the amount applied for.

The sanctions may also be analysed at various levels of denominations of applications with the help of the following table :-

Position of Sanction at Various Levels of Denomination

(Rs. in lakhs)

Denomination	Original Demand			Sanction		% of sanct to amount applicatio
	No.	Amount	% of total	Amount	% of Total	
0 - 5	26	63.11	82	54.10	79.5	86
	48	117.31	57	104.82	55.8	89
	22	54.20	41	50.72	42.2	89
5 - 10	2	14.00	18	14.15	20.5	101
	9	69.80	33	63.60	33.9	90
	7	55.80	43	49.45	41.2	88
10 and above	-	-	-	-	-	-
	1	20.00	10	20.00	10.3	100
	1	20.00	16	20.00	16.6	100
Total	28	77.11	100	68.25	100	88
	58	207.11	100	188.42	100	91
	30	130.00	100	120.17	100	92

Note : Figures in the upper and the lower corners of each column relate to new and existing units respectively and those in the middle for both units taken-together.

The table reveals that, on an average, the corporation sanctions 91% of the total amount requested for in the applications, but the sanctions vary according to the life of the borrowing units, the percentage of sanction being lower in the case of new units and higher in the case of existing units. Similarly, the percentage varies according to the denomination levels of loan applications, which is 89% at the lowest level and 100% at the highest. New units exhibit a similar trend, but reverse is true about existing units. Thus, the corporation sanctions still lower amounts to new units applying for smaller loans, whereas in the case of existing units applications of lower denominations get proportionately higher sanctions than the applications of higher denominations.

Out of the total sanction, more than half belongs to applications having denominations below Rs. 5 lakhs and a little more than one-third goes to the applications with denominations between Rs. 5-10 lakhs. The rest come under the highest denomination-group. A comparison of the percentage of sanctions with the percentage of the amount of applications of various denomination groups shows that at lower levels the percentage of the amount of application is higher than that of the sanction, which is indicative of lower sanctions to the applications of smaller denominations. It is also true about the applications from new units, as the percentage of amount of applications of smaller denominations is 82, while in the case of sanction it is 79.5.

In case of existing units such percentage of the amount of applications is lower than that of sanction, i.e. 41% and 42.2% respectively.

The table further reveals that nearly four-fifths of the total sanction to new units belongs to applications of smaller denominations, while in the case of existing units it is slightly more than two-fifths of the total sanction. Such preference for the applications of lower denominations from new units is evident from the value of Yule's co-efficient of association between applications below Rs. 5 lakhs and their sanction which is +.65. Thus, the corporation favours applications of higher denominations from existing units as compared to those from new units.

On a study of different types of cases there appears to be some relationship between the size of the sanctions and the denominations of the applications, which is analysed in the following table :-

Size of Sanction at Different Levels of Demominations

(Rs. in lakhs)

Denominations	Sanction			More than the Demand			Equal to the Demand			Less than the Demand		
	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
0 - 5	48	104.82	56	4	12.35	12	19	44.50	42	25	47.97	46
5 - 10	9	63.60	34	1	9.15	14	5	40.10	63	3	14.35	23
10 and above	1	20.00	10	-	--	-	1	20.00	100	-	--	-
Total :	58	188.42	100	5	21.50	11	25	104.60	56	28	62.32	33

The table shows that the percentage of sanction in the case of above three categories i.e. more than, equal to and less than the original demand varies according to the denomination of the individual application. In case of sanctions in excess of the original demand the percentage of sanction at all denomination levels is more or less equal to the average percentage. On the other hand in respect of sanctions equal to the original demand at lower levels of denomination the percentage of sanction is lower than the average percentage, which increases alongwith increase in the denomination. This indicates that, the sanction equal to the original demand is more popular with the applications of higher denomination. The percentage of sanction in the case of applications of lower denominations getting less than their own demand is higher than the average percentage which indicates that the sanction of this category is more popular with applications of lower denominations. The value of Yule's co-efficient of association between number of sanctions equal oto or more than the amount applied for and the number of applications having denominations above Rs. 5 lakhs is +.44.

The amount of each type of sanction in relation to the total sanction at each denomination level also reveals a tendency similar to that stated above as out of the total sanctions of the applications of lower denominations highest amount goes to the sanctions less than the original demands. At higher denominations the amount of sanction equal to the demand is the highest. The

sanction in excess of the demand does not seem to be popular at any denomination level.

The sanctions as a whole to the various types of the borrowing units can also be analysed as per the following table:-

Table 12.4

Sanctions to Various Borrowing Units

(Rs. in lakhs)

Borrowing Units	No.	Amount	%	Amount	%	% to Amount of Applications
Sole Proprietary Units	8	13.12	17	11.20	16	86
	11	17.27	8	14.93	8	86
	3	4.15	3	3.73	3	90
Joint Hindu Family	1	2.15	3	1.90	3	86
	1	2.15	1	1.90	1	86
	-	--	-	--	-	--
Partnership Firms	12	42.49	55	37.15	54.5	87
	24	78.39	38	67.80	36.0	86
	12	35.90	28	30.65	26	86
Private Companies	7	19.35	25	18.00	26.5	93
	17	68.80	33	62.45	33	91
	10	49.45	38	44.45	37	90
Co-operative Societies	-	--	-	--	-	--
	1	2.00	1	1.34	1	67
	1	2.00	1	1.34	1	67
Total :	28	77.11	100	68.25	100	88
	58	207.11	100	188.42	100	91
	30	130.00	100	120.17	100	92

The table reveals approximity between the sanctions to various borrowing units and the amount of applications. The percentage of the amount of applications of various units to their total demand and the percentage of sanctions to various units to the total sanction is identical in respect of sole proprietary units, joint Hindu family units, private companies and co-operative societies. It is different only in respect of partnership firms and public companies, where in the former case the percentage of sanction to total sanction is lower than the percentage of amount of application to total amount of application. Such percentage in the latter case is higher than the percentage of the amount of applications from these units to the total amount of all applications. This indicates the corporation's inclination towards the public companies and lesser sympathy with the demands of the partnership firms.

This tendency towards public companies becomes more obvious when we observe that the percentage of sanction to the amount of applications is higher than that of the other borrowing units. The average percentage of sanction to the amount applied for in respect of all types of the borrowing units is 91, but in the case of public companies it is 104. Next come the private companies in the case of which such percentage is equal to 91. Apart from these two units, in all other cases the sanctioned amount ranges between 67 to 88 percent of the amount of applications.

In respect of the new units the percentage of sanction to various borrowing units to the total sanction to such units is identical as compared to the percentage of amount of applications of respective units to the total amount of application of all new units. It is observed that the corporation, to some extent, favours new private companies in preference to new partnership firms and new sole proprietary units as the percentage of sanction to the total sanction to new units is higher in the farmer case and lower in the latter than the percentage of the amount of their applications to the total amount of all applications. On an average, the sanction to new units is 88% of the amount of application but such percentage of sanction is higher in respect of the private companies, which is indicative of a favour in their case. In respect of all other types of new borrowing units the percentage of sanction is lower which is indicative of the corporation's disfavour towards them.

The corporation seems to be indifferent to existing sole proprietary units and co-operative societies, as the percentage of the amount of application to the total demand is identical with the percentage of the amount of sanction to the total sanction in respect of all the existing units. On the other hand, the percentage of the amount of applications from existing partnership firms and private companies to the total amount of applications from all existing units is more than the percentage of their sanction to the total sanction to all existing units.

This indicates a disfavour by the corporation for these units. The corporation favours the existing public companies, as the percentage of sanction to these in relation to the total sanction to all units is more than the percentage of the amount of their applications to the total amount on all applications.

The size of sanction in comparison to the amount of application also varies according to the constitutional set up of the borrowing units, which is as follows :-

(₹. in lak

Borrowing Units	Total Sanction		Over Requirement			Equal to Requirement			Less than Requirement		
	No.	Amount	No.	Amount	%	No.	Amount	%	No.	Amount	%
Sole Proprietary Units	11	14.93	2	4.60	31	5	6.25	42	4	4.04	27
Joint Hindu Family Units	1	1.90	-	--	-	-	--	-	1	1.90	100
Partnership Firms	24	67.80	2	10.40	15	8	21.85	32	14	35.55	53
Public Companies	4	40.00	1	6.50	16	3	33.50	84	-	--	-
Private Companies	17	62.45	-	--	-	9	43.00	69	8	19.45	31
Co-operative Societies	1	1.34	-	--	-	-	--	-	1	1.34	100
Total :	58	188.42	5	21.50	11	25	104.60	56	28	62.32	33

The table reveals that out of the total sanction on an average, 11% is above the original demand, but in the case of sole proprietary units the sanction of this category goes up to 31%, followed by partnership firms and public companies. There is no sanction over requirement in respect of joint Hindu family units, co-operative societies and private companies. Similarly out of the total sanction, on an average, 56% falls in the category of sanction equal to the amount of application, which is higher in case of public and private companies and lower in case of sole proprietary units and partnership firms. Rest of the 33% of the total sanction comes in the category of sanctions less than the original demand but it is higher in the case of partnership firms.

This reveals that the Corporation favours applications from sole, proprietary units, public companies and private companies, as the sanctions more than and equal to the amount of applications range between 73% to 100% in their cases. But there appears a little disfavour for partnership firms, as the amount of sanction less than the requirement is 53%, while the sanction equal to and more than the requirement comes to only 47%.

According to number of sanctions also, a favour is obvious in respect of sole proprietary units, public and private companies, but reverse is true in all other cases as a large

number of applications come in the category of the sanctions less than ariginal demands.

The amount of sanction can further be analysed from the point of view of the purpose of loan which is as follows :

Table 12.6

Sanctions for Various Purposes

(Rs. in lakhs)

pose	Application No.	Application Amount	Application %	Sanction No.	Sanction Amount	Sanction %	% of Sanction to Application
	4	2.10	3	4	2.75	3.7	121
	6	3.50	1.6	5	3.05	1.6	87
	2	1.40	1	1	0.50	0.4	36
ng	22	22.42	29	22	20.43	30	91
	45	61.62	30	42	57.53	30.6	93
	23	39.20	31	20	37.10	30.9	95
and ery	26	49.13	64	26	43.87	64.5	90
	56	137.41	66	56	126.34	67	92
	30	83.28	67	30	82.47	68.7	94
g Co l	4	3.46	4	2	1.40	1.8	40
	9	4.58	2.4	3	1.50	0.8	35
	5	1.12	1	1	0.10	00	9
al :	28	77.11	100	28	68.25	100	89
	58	207.11	100	58	188.42	100	91
	30	130.00	100	30	120.17	100	92

Note : Figures in upper and lower corners of each column relate to new and existing units respectively and those in the middle for both taken together.

The table shows that the relative position of various purposes is different, as the demand of funds for plant and machinery is 66% of the total amount of applications, which is followed by the demand of funds for buildings, which is only 30%. The demand of funds for working capital and land is very nominal, as it is 2.4 and 1.6 percent respectively. While making sanctions the corporation has favoured the demand of funds for building and plant and machinery, as the percentage of sanction for these purposes to the total sanction is higher as compared to such percentage in respect of requirements for these purposes. The corporation is unbiased to the demands of funds for land as the percentage of sanction to the total sanction is equal to the percentage of the requirement for this purpose to the total amount of application. This also shows that the corporation disfavours the demands of funds for working capital. Such tendency is also clear from the percentage of sanction for each purpose to the amount of the application. On an average, the sanction is 91 percent of the amount of applications, but in respect of demands of funds for purchasing plant and machinery and constructing buildings the percentage of sanction to the amount demanded for these purposes is 92 and 93 respectively. This percentage is lower in case of sanctions for acquisition of land and for working capital which indicates disfavour by the corporation as far as these purposes are concerned.

In respect of new units, the table further reveals that applications demanding funds for acquisition of land and for meeting working capital requirements are comparatively more popular and the relative position of demand of funds for building plant and machinery has declined. The corporation seems to be less inclined to sanctioning assistance to new units for the purpose of working capital as the percentage of sanction for this purpose to the total sanction is less than the percentage of funds required for this purpose to the total amount of application. But, for the purpose of land the percentage of sanction to the total sanction is higher than the percentage of funds demanded for acquisition of land. This tendency becomes more obvious from the percentage of sanction to the amount of application for various purposes. On an average the sanction to new units is only 89% of the total amount demanded which varies for different purposes. Such percentage in respect of working capital is least, but in respect of building and plant and machinery it is higher while the highest percentage is in respect of land which indicates the highest priority for this purpose.

In respect of the existing units, the table suggests that the importance of funds for acquisition of land and for working capital has declined considerably, as the demand for these purposes is 2% of the total funds demanded by them but the sanction is only 0.4% of the total sanction to such units. The

to the total sanction to existing units is more than the percentage of amount demanded for there purposes to the total demand. Further, the corporation, on an average, has sanctioned 92% of the amount of applications of the existing units but the sanction in respect of demand of funds for land and for working capital is very low. In respect of the sanction for building and plant and machinery the percentage of sanction to the total sanction is higher than the percentage of fund demanded for these purposes to the total demand. This indicates that the corporation favours the purpose of building and plant and machinery in respect of both new as well as existing units.

Periodicity of Loans :

The corporation has sanctioned loans for a period ranging between 3 to 12 years the most popular period being 10 years. Out of total number of 58 sanctions 37 belong to this term. Thirteen loans have been sanctioned for a period ranging between 5 to 10 years. 4 sanctions each belong to the terms more than 10 years and less than 5 years respectively. Amountwise nearly 90% of the total sanction is for a period ranging between 5 to 10 years and 5.5% of the total sanction is in case of the period below 5 years. Only 4.5% of the total sanction belongs to a term above 10 years. The average periodity comes to 7.5 years with the standard deviation of 1.8 years which suggests a variation in periodicity from 2.1 to 12.9 years (i.e. mean ± 36) in

Rate of Interest :

The interest charges varies between 6 to 10 percent which is as follows :-

Table 12.7

Rate of Interest

Rate	No. of Sanction	Amount	% of total
6.0	5	19.63	10
6.5	13	23.35	12
7.5	9	38.85	21
8.5	22	88.64	47
9.0	2	3.75	2
9.5	1	3.00	2
10.0	6	11.20	6
Total :	58	188.42	100

The table shows that the most popular rate of interest is 8.5 percent, as 22 out of 58 sanctions have been charged interest at this rate. This is followed by the rate of 6.5

sanction at every level of rate of interest 8.5 percent is the most popular rate, as nearly half of the total sanction is at this rate of interest. The average rate is 7.8% with the standard deviation of 1.3%, which indicates a possibility for the variation of rates between 7.8 $\pm$ 3(1.3) is almost all cases.

Chapter XIII

ANALYSIS OF DISBURSEMENT

After the loan is sanctioned the amount is not handed over to the borrowers immediately, but it goest to them through a planned process of disbursement. The borrowing units are required to fulfil certain legal formalities before the disbursement is made. The position of disbursement to new as well as existing units is as follows :-

Table 13.1

Position of Disbursement to New As Well As Existing Units

(Rs. in lakhs)

Borrowing Units	Sanction			Disbursements			% of disbursement to sanction
	No.	Amount	%	No.	Amount	%	
New	28	68.25	36	26	58.38	34.5	86
Existing	30	120.17	64	30	110.91	65.5	92
Total :	58	188.42	100	56	169.29	100	90

The table reveals that the total amount of disbursement is, on an average, 90% of the total sanction. The position of disbursement varies according to the period of existence of the borrowing units, as the above percentage in respect of the new units is lower than that of the existing units, which reflects a favour towards the existing units. This becomes more obvious when the percentage of sanction to these units in relation to the total sanction is compared with the percentage of disbursement relating to the total disbursement. The percentage of disbursement to new units is lower than that of sanction, but reverse is true about the existing units.

Out of total sanction to new as well as existing units the disbursement comes to 90% with only a few of cases of part-disbursement. In a large number of cases there has been disbursement equal to sanction which is shown below :-

Table 13.2

The Size of Disbursement as Compared With Sanction

Borrowing Units	No.	Amount	% of total	% of total of respective units
New	19	37.85	32	65
	7	20.53	41	35
	26	58.38	34.5	100
Existing	19	80.88	68	73
	11	30.03	59	27
	30	110.91	65.5	100

The table reveals that out of the total disbursement the corporation has disbursed 38 sanctions in full and only 18 sanctions have been partly disbursed. Out of the total amount of disbursement nearly 70% has been disbursement in full and the rest 30% is only part disbursement, which slightly differs in the case of the new units from that of the existing borrowing units. Percentage of the disbursement in full to the total disbursement is lower in the case of new units than the existing units, but the reverse is true about the percentage of their part disbursement. This indicates that as far as the existing units are concerned the corporation favours disbursement in full. Numberwise full disbursement is equally divided between the new and the existing units, but amountwise nearly 68% of the total disbursement in full goes to existing units and only the rest 32% to the new units. On the other hand, despite a lesser number of part disbursement, the percentage of such disbursement to new units is higher. This indicates that the applications of higher denominations from existing units have been disbursed in full and those of lower denominations in part but in respect of new units the case is just the reverse. Amountwise there is a positive association in respect of full-disbursement to existing units as the value of the Yule's co-efficient of association is +.15. This indicates the existing units are in more favourable position to receive the amount soon after the sanction than the

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The position of disbursement varies according to the constititutional set-up of the borrowing units which is as follows :-

Table 13.3

Disbursement to Various Borrowing Units

Borrowing Units	Sanction			Disbursement			% to sanction
	No.	Amount	%	No.	Amount	%	
Sole Proprietary Units	8	11.20	16	7	6.45	11	58
	11	14.93	8	10	9.88	6	66
	3	3.73	3	3	3.43	3	92
Partnership Firms	12	37.15	55	11	32.03	55	87
	24	67.80	36	23	60.98	36	90
	12	30.65	26	12	28.95	26	94
Private Companies	7	18.00	26	7	18.00	31	100
	17	62.45	33	17	55.39	33	90
	10	44.45	37	10	37.39	34	84
Public Companies	--	--	--	--	--	--	--
	4	40.00	21	4	40.00	23	100
	4	40.00	33	4	40.00	33	100
Other Units	1	1.90	3	1	1.90	3	100
	2	3.24	2	2	3.24	2	94
	1	1.34	1	1	1.14	1	85
Total :	28	68.25	100	26	58.38	100	86
	58	188.42	100	56	169.29	100	90
	30	120.17	100	30	110.91	100	92

Note : Other units include [illegible]

The table reveals that, on an average, the disbursement is 90% of the sanction and varies from unit to unit. As far as partnership firms and private companies are concerned the percentage of their disbursement is the same as the average disbursement percentage but it is higher in the case of public companies and other units and lower in the case of sole proprietary units. This also indicates that in respect of disbursement the public companies and other units are in a better position. A similar tendency is observed regarding disbursement to new units, where the average disbursement is 86% of the total amount of sanction. In their case the percentage of disbursement to the amount of sanction in respect of sole proprietary units is merely 58, but in other cases the percentage is above the average disbursement percentage. As compared to new units the existing units are slightly in a better position, in whose case the average disbursement is 92% of the total amount of sanction. This percentage is 84 in respect of private companies which is indicative of a slightly weaken position of disbursement. It is 94 and 100 in respect of partnership firms and public companies respectively. In the case of existing sole proprietary units the percentage of disbursement to sanction is equal to the average disbursement percentage, which indicates an improved position of disbursement when compared with the new sole proprietary units.

It is further observed that in the case of partnership firms and private companies the percentage of sanction to the total sanction is equal to the percentage of disbursement to total disbursement which indicates that in their case the disbursement is compatible with the sanction. Such percentage of disbursement to sole proprietary units is lower, which places them in a less favourable position. The position of the public companies is more favourable, as the percentage of their disbursement to total disbursement has been higher than the percentage of their sanction to the total sanction.

On the basis of the above comparative analysis the corporation seems to be favouring earlier disbursements to new private companies, than to all other new units. Similarly in the case of existing units such favour is shown only to public companies.

The size of disbursement (i.e. full or part) compared with the amount of sanction seems to be related with the constitutional set up of different borrowing units, which is shown below :-

Table 13.4

Proportion of Full Disbursement to Various Borrowing Units

(Rs. in lakhs)

Borrowing Units	Total disbursement No.	Total disbursement Amount	Disbursement in full No.	Disbursement in full Amount	% of Total
Sole Proprietary Units	7	6.45	5	4.85	75
	10	9.88	7	6.58	65
	3	3.43	2	1.73	50
Partnership Firms	11	32.03	6	13.00	11
	23	60.98	14	34.80	57
	12	28.95	8	21.70	75
Private Companies	7	18.00	7	18.00	100
	17	55.39	12	35.45	65
	10	37.39	5	17.45	47
Public Companies	--	--	--	--	--
	4	40.00	4	40.00	100
	4	40.00	4	40.00	100
Other Units	1	1.90	1	1.90	100
	2	3.04	1	1.90	63
	1	1.14	--	--	--
Total :	26	58.38	19	37.85	65
	56	169.29	38	118.73	70
	30	110.91	19	80.88	73

Note : Upper and lower figures of each column relate to new and existing units respectively and those in the middle for both units taken together.

The table shows that, on an average, the disbursement in full comes to be 65% and 73% of the total disbursement to new and existing units respectively, which indicates a favour for the latter. This seems to have varied according to the constitutional set-up of these borrowing units. In case of new units, except the partnership firms, where such percentage is 41, in all other cases it is higher than the average percentage of disbursement, which shows a favour to them. In the case of existing units such favour is also obvious for public companies and partnership firms, as the percentage of full disbursement to the total disbursement to these units is higher than the average percentage for all existing units taken together.

On the basis of the number of disbursements in full in relation to the number of total disbursement to new as well as existing units, in the case of new private companies all the seven disbursements made to them belong to the category of disbursement in full, but out of 10 disbursements to existing private companies only 5 belong to the above category, thereby indicating a favour to the former. On the other hand, according to the above standard the corporation seems to favour existing partnership firms, as out of 12 disbursements to them 8 belong to the category of disbursement in full, whereas in case of new units the numbers of disbursement in full is only 6 out of the total number of their 11 disbursements. The corporation seems to be unbiased to new as well as existing units of sole proprietary

concerns, because the ratio of number of disbursement in full to the total number of their disbursement is almost equal. No such tendency is seen in the case of public companies and other units, as there has been no disbursement in full either to new or to existing units.

The disbursement does not start just after the sanction. It begins after the completion of certain legal formalities, which naturally takes some time. This has been analysed in the following table :-

Table 13.5

Position of Time-Gap Between the Sanction and the First Disbursement

(Rs. in lakhs)

Period (months)	New Units			Existing Units			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
Below 3	13	33.93	58	8	17.18	15	21	51.11	30
3 - 6	4	6.41	11	10	34.59	33	14	41.00	34
6 - 9	5	10.50	18	4	21.00	19	9	31.50	19
9 -12	3	4.04	7	2	1.39	1	5	5.43	3
12.-15	--	--	--	2	21.00	19	2	21.00	13
15 -18	1	3.50	6	1	0.50	--	2	4.00	2
18 -21	--	--	--	2	5.25	5	5	5.25	3
Above 21	--	---	--	1	10.00	9	1	10.00	6
Total :	26	58.38	100	30	110.91	100	56	169.29	100

The table shows that out of 56 disbursement 49 start within a period of one year which, cover nearly three-fourths of the total disbursement. There are 21 disbursements which have started within a period below three months involving a sum equal to 30% of the total disbursement. Disbursements to six units involving a sum equal to 18% of the total disbursement, start within a period of one to two years and there is one such disbursement which starts after a period of two years. The overall average period for the beginning of disbursements is 6.5 months. The position of above time-gap varies according to the period of existence of the borrowing units.

In case of new borrowing units half of the disbursement involving a sum equal to 58% of the total amount of disbursement starts within a period of three months. In only one case involving an amount equal to 6% of the total disbursement, it takes more than a year. The overall average period for the start of disbursement in their case is nearly 5 months.

On the other hand, in the case of existing borrowing units the time-gap, extends even beyond two years. The most popular period in their case is 3-6 months during which the disbursements start on 10 sanctions involving a sum equal to nearly one-third of the total disbursement. Out of the total number of 30 disbursements 24 start within a period of a year, which involve a sum equal to two-thirds of the total disbursement to existing units. Five disbursements involving a sum equal to ..

nearly one-fourth of the total disbursement starts after a year and one case has taken even more than two years for the start of disbursement. The average period of the time-gap for such units is slightly more than seven months.

Thus the average time-gap of six months for starting the disbursement for all units is even greater in case of existing units, only slightly smaller in the case of new units. Thus a sufficiently long time passes before the borrowing units get funds to start working on their projects.

The position of time-gap in disbursement may also be analysed separately for different types of the borrowing units as follows :-

Table 13.6

Position of Time Gap Between Sanction and First Disbursement to Various Units

Period (months)	Sole Proprietary Units	Partnership Firms	Private Companies	Public Companies	Other Units	Total
Below 6	3	8	5	-	1	17
	6	16	12	-	1	35
	3	8	7	-	-	18
6 - 12	4	3	1	-	-	8
	4	5	2	2	1	14
	-	2	1	2	1	6
12 - 18	-	-	1	-	-	1
	-	1	2	1	-	3
	-	1	1	1	-	3
Above 18	-	-	-	-	-	-
	-	1	1	1	-	3
	-	1	1	1	-	3
Total	7	11	7	-	1	26
	10	23	17	-	2	56
	3	12	10	4	1	30
Average period	6.4	4.6	5.6	-	3	5.3
	5.4	5.6	6.2	13.5	6	6.3
	3	6.5	6.6	13.5	9	7.2

Note : Upper and lower figures of each column relate to new and existing units respectively and those in the middle for both units taken together.

The table reveals that a larger number of disbursements in the case of all types of the borrowing units except the public companies start within half a year. In the case of public companies most of the disbursements have started within a period of 6-12 months. Thirty-five disbursements, the highest number, start within a period of six months. Individually all disbursements of sole proprietary units start within a year, although the disbursements to existing ones start within six months. The average period for the start of disbursement comes to 5.4 months, although the average in case of new units is a little higher and in case of existing units it is considerably lower.

On the other hand most of the disbursements of partnership firms start within six months but among them all disbursements of new units start within a year whereas thereof existing units take even more than two years. The average period for the start of disbursement to both types of partnership firms is 5.6 months, the same being lower for new units and higher for the existing ones indicate a tendency contrary to that observed in the case of sole proprietary units.

In case of private companies the position of early start of disbursement has further deteriorated. The average period for the start of disbursement is 6.2 months, which separately considered is slightly lower for new units and higher for the existing ones. This position becomes worst in the case of

public companies in whose case it takes even a period of two years where as the average period for the start of disbursement to all such units is 13.5 months.

The average period for the start of disbursement for all units taken together is 6.3 months, whereas the same for sole proprietary units and partnership firms is lower and for public companies higher which indicates a favour for the former. The average period for the start of disbursement to new units comes to be 5.3 months but the same is lower in the case of new partnership firms and higher for new sole proprietary units, private companies, which indicates a favour for the former and disfavour for the latter. In case of existing units the average period for start of disbursement is 7.2 months but in all other cases except that of the public companies such period is lower which is indicative of a favourable position of start of disbursements in their cases.

After considering the position of the time-gap between sanction and the first instalment of disbursement to various borrowing units, let us consider the time taken for full disbursement to new as well as existing units.

Table 13.7

Time Taken for Full Disbursement

(Rs. in lakhs)

Period (months)	New Units			Existing Units			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
Below 3	6	8.00	21	6	15.83	20	12	23.83	20
3 - 6	3	6.45	17	7	30.20	37	10	36.65	32
6 - 9	3	5.80	15	2	21.00	26	5	26.80	23
9 -12	3	7.90	21	2	8.60	12	5	16.50	13
12 - 24	3	7.45	20	1	2.50	3	4	9.95	8
Above 24	1	2.25	6	1	2.75	3	2	5.00	4
Total:	19	37.85	100	19	80.88	100	38	118.73	100

The table shows that full disbursement has taken considerable time, which in some cases has even gone beyond three years. In a few cases the whole amount has been disbursed in a single instalment. In most of the cases the total disbursement has been completed within the period of a year, though it has varied according to the period of existence of the borrowing units. In the case of new units out of total number of 19 disbursements only 15 have been completed within a year, but in the case of existing units 17 disbursements out of the total number of 19 have been completed within the said period of time. Such tendency is obvious not only in respect of number but also in respect of amount involved in the disbursement, as 94% of the total disbursement in full to the existing units has been disbursed within a year whereas the same in the case of new units is 74%. The average period for the completion of disbursement to all units comes to be 7.5 months which is even higher (8.4) months) in case of new units, but lower (6.5 months) in case of existing units. The value of Mode for disbursement is also about six months i.e. 6.4 months for all units, 6.7 months for new units and 6.2 months for existing units which indicates that most of the disbursements have been completed during a period of about six months. Thus it can be concluded that, though the corporation takes a lot of time to start disbursement yet it has taken even years in a few cases for completing disbursement.

The disbursement is generally made in instalments, the number of which varies from case to case which in respect of new as well as existing units, can be analysed as follows :-

Table 13.8

Number of Instalments for Full Disbursement

(Rs. in lakhs)

Number of Instal-ments	New Units			Existing Units			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
1	2	2.00	5	1	4.75	6	3	6.75	6
2	3	2.85	8	10	47.83	60	13	50.68	42
3	5	12.70	33	4	14.10	17	9	26.80	22
4	3	5.10	13	1	2.60	3	4	7.70	7
5	1	4.50	12	2	9.10	11	3	13.60	11
6	3	5.20	14	1	2.50	3	4	7.70	7
Above 6	2	5.50	14	-	-	-	2	5.50	5
Total :	19	37.85	100	19	80.88	100	38	118.73	100

Source!

The table shows that the disbursement in two instalments has been most popular as in 13 out of 38 cases full disbursement has been made in two instalments involving a sum equal to 42% of the total amount of full disbursement. This is followed by three instalment disbursement, which has been made in 9 cases involving a sum equal to 22% of the total disbursement, in full. Instalments numbering 2-3 combinely cover 22 cases out of total number of 38, which involves a sum equal to 64% of the total disbursement in full. The same number of instalments is there in 14 out of 19 cases of existing units, involving a sum equal to 77% of the total disbursement in full to them.

But its popularity has declined in case of new units where such number has covered only 8 out of the total number of 19 cases which involve a sum equal to 41% of the total amount of full disbursement to such units. The Model number for new units is three, whereas it is two for existing units. It can also be observed that the total number of instalments for full disbursement in case of new units is 72, but it is 53 for existing units, although the total amount of disbursement in full to new units is less than it is for the existing units. This indicates that the corporation disburses total amount to new units in instalments of smaller denomination and otherwise to existing units.

The average number of instalments for disbursement is 3 for all units. In the case of existing units the disbursements in less than three instalments is positively associated as the value of Yule's co-efficient of association is + .54. This indicates that the corporation is inclined to disburse the loan by smaller number of instalments to existing units and by larger number of instalments to new units.

Chapter XIV

ANALYSIS OF REPAYMENT

The repayment of the loan is made in instalments of equal denomination spread over the term of the loan. It does not start just immediately after the sanction or disbursement, but after the expiry of a certain period from the date of the disbursement of the first instalment known as the gestation period. Its position is as follows :-

Table 14.1

Gestation Period for Repayment

(Rs. in lakhs)

Months	New Units			Existing Units			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
0 - 12	7	16.86	29	8	19.86	18	15	36.72	22
12 - 18	13	31.09	53	18	77.69	70	31	108.78	64
18 - 24	6	10.09	18	4	13.36	12	10	23.79	14
Total :	26	58.38	100	30	110.91	100	56	169.29	100

The table reveals that out of the total number of 56 disbursements, in 15 cases the gestation period is less than a year, involving a sum equal to 22% of the total disbursement, which is more popular, at least amount-wise, with new units than with the existing ones as the percentage in the former case is 29, whereas in the case of the latter it is 18 only. Similar tendency is observed about the gestation period ranging between 18-24 months, covering 10 cases involving a sum equal to 14% of the total disbursement. The most popular guestation period is betwen 12-18 months, as the highest number of 31 disbursements involving a sum equal to 64% of the total disbursement, belong to such period. It has been comparatively more popular with the existing units, as 18 out of the total number of 30 cases involving a sum equal to 70% of the total amount for such units, belong to this gestation period. On the other hand, in case of new units only 13 out of the total number of 26 disbursements involving a sum equal to 53% of their total disbursement belong to this period. It is further confirmed by the value of the Yule's co-efficient of association between gestation period over one-and-half year and the state of repayment by new units, which is +.3.

The popularity of the various gestation periods varies according to the constitutional set-up of the borrowing units, as shown in the following table:-

Gestation Period for Various Units

(Rs. in lakhs)

Months	0 - 12			12 - 18			18 - 24			Total		
Units	No.	Amount	%	No.	Amount	%	No.	Amount	%	No.	Amount	%
Sole Proprietary Units	4	2.73	27	4	4.30	44	2	2.85	29	10	9.88	6
Partnership Firms	8	25.08	41	11	30.79	50	4	5.11	9	23	60.98	36
Private Companies	3	8.91	16	10	30.65	56	4	15.83	28	17	55.39	33
Public Companies	-	--	--	4	40.00	100	-	--	--	4	40.00	23
Joint Hindu Family	-	--	--	1	1.90	100	-	--	--	1	1.90	1
Co-operative Societies	-	--	--	1	1.14	100	-	--	--	1	1.14	1
Total :	15	36.72	22	31	108.78	64	10	23.79	14	56	169.29	100

The table reveals that the different gestation periods are not equally popular with all types of the borrowing units. The gestation period of 12-18 months is most popular with public companies, joint Hindu family units and co-operative societies, as such units are required to start repayment within this period. In case of all other units, although most of the cases of repayment belong to this gestation period, yet in a few cases the gestation period happens to be higher and lower also. Out of the total number of their 56 cases 15 involving a sum equal to 22% of the total disbursement belong to a lower gestation period i.e. below a year. Most of such cases belong to partnership firms. Amount-wise, the percentage of disbursements to sole proprietary units and partnership firms having this gestation period, is higher than the overall average percentage, thereby indicating popularity of such period with them. Similarly 10 out of 56 disbursements have higher gestation period, involving a sum equal to 14% of the total disbursement. This percentage in respect of sole proprietary units and private companies is higher, indicating the popularity of a higher gestation period with such units. But even amongst such units the gestation period between 12 - 18 months is most popular, although the percentage of disbursement having this gestation period is lower than overall average percentage.

After the expiry of the gestation period the borrowing units are expected to start the repayment, which has been done even earlier in a few cases. It is shown in the following table :-

Table 14.3

<u>Time Taken for the Start of Repayment from the Date of Expiry of Gestation Period</u>

(Rs. in lakhs)

Days	New Units			Existing Units			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
Before 90	1	2.50	2	1	2.60	3	2	5.10	5
90 - 0	4	6.25	6	6	18.47	19	10	24.72	25
0	2	6.75	7	2	6.20	6	4	12.95	13
0 - 90	3	6.50	6	6	37.31	37	9	43.81	43
After 90	4	8.65	9	3	5.50	5	7	14.15	14
Total :	14	30.65	30	18	70.08	70	32.	100.73	100

The table shows that only 32 units have started the repayment, out of which 4 units start the repayment on the day the first instalment falls due and 12 units involving a sum equal to 30% of the total amount of their disbursement even prior to their due dates. Half of the total number of units start repayment after the expiry of the due dates which involves a sum more than half of the total amount. This lapse has extended even to a few years in some cases. Thus it can be concluded that units getting smaller disbursements start repayments punctually and delay occurs only in the case of units getting disbursement of larger sums.

Numberwise, almost similar tendency is observed in respect of new as well as existing units. Out of the total number of 32 units starting repayments 18 belong to existing units and the rest 14 to new units. Numerically the units are equally divided as far as the start of repayment during pre and post due date period is concerned. Number-wise the value of Yule's co-efficient of association between new units and pre due date start of repayment is zero. Amount-wise, there seems to be positive association, as the value in this respect is +.2, In other words existing units getting higher amounts of disbursements fail to start repayments in time.

It is revealed that out of 56 disbursements only 6 units have repaid the loan in full, 26 units to the extent of 43% of the total disbursement and the rest 24 units have not even started the repayment, similarly out of the total amount of repayment nearly 20% belongs to the category of the full repayment and the rest to the part repayment.

In case of part repayments some units are regular, whereas the others are not so, which may be considered in the following table :-

Table 14.4

Position of Part Repayment

(Rs. in lakhs)

Repayment	New Units			Existing Units			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
Regular	4	4.24	42	10	25.56	89	14	29.80	76
Overdue	7	5.94	58	5	3.19	11	12	9.13	24
Total:	11	10.18	100	15	28.75	100	26	38.93	100

The table reveals that in respect of part-repayments out of the total number of 26 such repayments 14 are regular and the rest 12 are irregular. The irregular repayments cover only 24% of the total amount of part repayment. This indicates that despite almost equal number of regular and overdue repayments the amount in the later case is very low.

New and existing units have followed a reverse order in respect of regular and overdue repayments, as in the former case out of the total number of 11 part repayments 4 have been regular and 7 irregular, but in the latter case 10 out of the total member of 15 units have been making regular repayments.

This explains that the existing units are very particular in making regular repayments, but the reverse is true about new units. It is further clear from the value of the Yule's co-efficient of association for existing units making regular repayments, which is +.55, whereas for new units it has a negative association to the same extent.

Regular and overdue repayments made by different borrowing units can be further analysed with the help of the following table :-

Repayments of Various New As Well As Existing Borrowing' Units

(Rs. in lakhs)

Units	Regular			Overdue			Total		
	No.	Amount	%	No.	Amount	%	No.	Amount	%
Sole Proprietary Units	1 (-)	0.50 (-)	11 (-)	2 (-)	0.30 (-)	5 (-)	3 (-)	0.80 (-)	8 (-)
Partnership Firms	1 (4)	0.14 (4.59)	3 (18)	3 (3)	3.53 (2.88)	59 (91)	4 (7)	3.67 (7.47)	36 (26)
Private Companies	2 (3)	3.60 (6.32)	86 (25)	1 (2)	1.35 (0.30)	23 (9)	3 (5)	4.95 (6.62)	49 (23)
Public Companies	- (3)	- (14.65)	- (57)	- (-)	- (-)	- (-)	- (3)	- (14.65)	- (51)
Joint Hindu Family	- (-)	- (-)	- (-)	1 (-)	0.76 (-)	13 (-)	1 (-)	0.76 (-)	7 (-)
Total :	4 (10)	4.24 (25.56)	100 (100)	7 (5)	5.94 (3.18)	100 (100)	11 (15)	10.18 (28.74)	100 (100)

Note :- Figures in brackets relate to existing units.

The overall position of repayments by new units indicates that most of them have been overdue, both number-wise as well as amount-wise. So far as the regular repayments are concerned most of them are from private companies, as out of 4 new units making regular payments two belong to this category, covering 86% of the total regular part repayment by new units. As far as overdue repayments are concerned most of them are from partnership firms, as out of a total number of 7 overdue repayments 3 belong to this category, paying 59% of the total amount of overdue part repayment by new units.

The overall position of repayments by existing units indicates that, number as well as amount-wise, most of them have been regular, as out of a total number 15 existing units making part repayment 10 have been regular and only 5 units have delayed their repayments. Amongst existing borrowing units making regular payments, number-wise, partnership firm appear to be most regular. Amount-wise, such popularity goes to public companies. On the other hand overdue repayments, both number as well as amount-wise are mostly found in case of partnership firms. Thus it is obvious that regular repayments are from public and private companies, but overdue repayments have been occasioned by partnership firms, both new as well as existing ones.

Similar analysis may be done in respect of units, making no repayment. Such units are either :-

(i) Those from whom repayments were not due;

(ii) Those from whom repayments were overdue.

The position of the units belonging to the latter category may be considered as follows :-

Table 14.6

Overdue Non-Repayment As Compared to Disburesement

(Rs. in lakhs)

Units	Disbursement		Overdue Non-repayment		% to disbursement.
	No.	Amount	No.	Amount	
Sole Proprietary Units	10	9.88	1	1.10	11
Partnership Firms	23	60.98	2	5.17	8
Private Companies	17	55.39	3	12.58	23
Co-operative Societies	1	1.14	1	1.14	100
Total :	51	127.39	7	19.99	16

The table reveals that on an average the units, getting 16% of the total disbursement made to them, have not even started repayments, although in some cases it has been much overdue. This percentage varies from unit to unit, which goes as high as 100 in case of co-operative societies, but only 8 in case of partnership firms. In case of private companies it is worth noting that in 3 out of 17 cases of disbursements no repayment has started, which covers an amount equal to 23% of the total amount of disbursement to such units. Thus the non-repayment is comparatively more popular with private companies and less with partnership firms and sole proprietary concerns. As far as public companies and joint Hindu family units are concerned there has been no case of non-repayment.

In the sample there are 19 units whose repayments have been overdue, out of which 7 units have not even started repayment, but the rest 12 units have been making delayed repayments. The periodicity for such overdue repayment is as follows :-

Table 14.7

Periodicity of Overdue Repayment

(Rs. in lakhs)

Periodicity	Non-repayment			Irregular Repayment			Total		
(Months)	No.	Amount	%	No.	Amount	%	No.	Amount	%
Upto 6	2	11.82	59	2	7.50	31	4	19.32	44
6 - 12	1	2.35	12	2	2.90	12	3	5.25	12
12 - 24	2	2.47	17	5	11.35	48	7	14.82	34
Above 24	2	2.35	12	3	2.10	9	5	4.45	10
Total:	7	19.99	100	12	23.85	100	19	43.84	100

The table reveals that out of total number of 19 cases of overdue repayments 7 cases involving a sum equal to 56% of the total disbursement to such units, the repayments have been overdue for a period less than a year and in the other 7 cases involving a sum equal to 34% of such disbursement they have been overdue for a period between 1-2 years. Five units have delayed their repayments by a period extending beyond two years, which in some cases have gone even upto 7 years. It is also clear that the repayment on the disbursement of higher denomination, even if delayed have not gone beyond a year but as the denomination of disbursement decreases the period of overdue repayment is marked by an increasing trend.

The period of overdue repayment can be analysed separately in respect of units making no repayment and units making irregular repayments. In the former category 3 out of 7 units have delayed their repayment by a period less than a year and two units by a period between 1-2 years. There appear to be the units getting disbursements only recently. There are two units whose repayments have been delayed by a period even more than two years. So non-repayment is respect of new disbursement has been greater than that of old disbursements. Similar is the case with units making irregular repayments as 9 out of 12 units have delayed their repayments by a period less than two years and the rest by a period more than two years.

Payment of Interest :

The corporation expects the payment of interest twice a year, generally during the month of March and September. On the basis of the payment of interest the borrowing units can be classified into four categories, namely, units making no payment, those making totally irregular payments, those making partly regular payments and those making totally regular payments which is as follows :-

Table 14.8

Position of Payment of Interest

(Rs. in lakhs)

Payment	Units	Instalments	Amount	Percentage
No payment at all	7	Nil	Nil	Nil
Totally irregular	8	13	.41	1.3
Partly regular	25	271	25.86	77.2
Totally regular	18	99	6.95	21.5
Total :	58	383	33.22	100.0

The table reveals that the corporation has received a total sum of Rs. 33.2 lakhs as interest from 51 borrowing units only 7 units have not yet started the paying of interest. 8 units have been making totally irregular payments of interest in the sense that none of the 13 instalments from such units have been received on due dates. On the other hand 18 units have paid nearly 21.5% of the total amount of interest by 99 instalments regularly on the due dates. Most of the payment of interest belongs to the category of partly regular payment, as 25 units have paid an amount equal to 77.2% of the total amount by 271 instalments, out of which 204 instalments have been paid regularly and the rest 67 irregularly.

Thus most of the payment of interest has been regular, as out of the total number of 383 instalments 303 have been paid regularly and only 80 instalments have not been paid on due dates. Amount-wise, nearly 74% of the total amount has been received regularly, and the rest 26% irregularly.

In case of total number of 7 units, making no payment of interest, 5 units are partnership firms and one each comes in the category of sole proprietary unit and private company. In fact the interest was not due from them.

Totally irregular payments have become a sort of non-payment as out of the total number of 8 units, 5 units have paid only one instalment each, two units two instalments each, and only one units has paid 4 instalments, of course none of them on due dates. Amongst such units three each belong to partnership firms and private companies and one each belong to sole Proprietary units and co-operative societies. Most of such payments are from new units, as 5 out of 8 are new units.

Except co-operative societies, all other types of 25 borrowing units have made partly regular payments of interest by 271 instalments amounting to Rs. 25.86 lakhs, out of which 204 instalments of Rs. 18.81 lakhs have been paid regularly and the rest 67 instalments amounting to Rs. 7.05 lakhs irregularly. The position of such payment in respect of various types of borrowing units is as follows :-

Table 14.9

Position of Partly Regular Payment

(Rs. in lakhs)

Units	Regular			Irregular			Total		
	Instal-ments	Amount	%	Instal-ments	Amount	%	Instal-ments	Amount	%
Sole Proprietary Units	55	1.58	84	12	0.30	16	67	1.88	7
Joint Hindu Family	11	0.57	87	1	0.08	13	12	0.66	3
Partnership Firms	71	5.08	57	35	3.76	43	106	8.84	35
Private Companies	44	3.23	71	16	1.34	29	60	4.56	17
Public Companies	23	8.85	84	3	1.57	16	26	9.92	38
Total :	204	18.81	73	67	7.05	27	271	25.86	100

The table reveals that, number-wise, the largest number of instalments are from partnership firms but, amount-wise, it occupies only the second place, as public companies have paid the highest amount of interest, which is equal to 38% of the total amount of partly regular payment of interest. Then come the private companies which contribute nearly 17% of the total amount of interest under this category. Taking into account the number of instalments it is observed that out of the total number of 271 instalments, 204 have been paid regularly and the rest 67 irregularly, the number of regular instalments being higher than the number of irregular instalments for all types of borrowing units.

Similarly out of the total amount of partly regular payment of interest, on an average, 73% has been paid regularly, and only 27% irregularly. But the percentage of regular payments is respect of sole proprietary units, joint Hindu family units and public companies is higher than the overall average percentage in this respect, although it is lower in case of partnership firms and private companies.

Out of the total number of 204 regular instalments 108 instalments amounting to 73% of the total amount of regularly paid instalments are from existing units and only 96 covering 27% of the total amount come from the new units. Thus, despite almost equal number of instalments for new as well as existing units, their respective amounts differ widely.

All the 55 instalments from sole proprietary units and all the 11 from the joint Hindu family units are from new units. Similarly all the 23 instalments from public companies come from existing units. In case of partnership firms out of the total number of 71 instalments 50 belong to existing units and only 21 come from new units. Similarly in case of private companies out of 44 instalments 35 are from existing units and only 9 from new units.

In respect of irregular payment of interest almost the same tendency has been observed. Calculations indicate a negative association for new units making regular payments, as the value of Yule's co-efficient of association for new partnership firms and new private companies is -.3 and -.1 respectively.

Similarly, units making regular payment have paid Rs. 6.95 lakhs by 99 instalments. Out of the total number of 18 such units 6 are new, while 12 are existing ones. Six units have paid nearly 45% of the above total amount by 29 instalments only, whereas 12 existing units have paid 70 instalments covering a sum equal to 55% of the total regular payment of interest. Most of these instalments belong to partnership firms and private companies.

In all there have been 80 irregular instalments of interest paid to the Corporation and the periodicity of the overdue payment has varied from 3 to 182 days which can be analysed with the help of the following table :-

Table 14.10

Period of Overdue Payment of Interest

Number of days	Number of instalments
0 - 30	41
30 - 60	14
60 - 90	13
90 -120	4
120 -150	4
150 -180	3
180 and above	1
Total :	80

Mean = 48 days.

σ = 44.84 days.

How do you read this? What is your idea? Have you calculated this? Explain!

The table reveals that more than half of the total number of instalments have been delayed by a period less than a month, but the average period for such delay is 48 days with the standard deviation of nearly 45 days. This indicates corporation's inability to realise the interest effectively.

PART IV

Chapter XV

SUMMARY OF MAIN FINDINGS

9.1. The corporation has considered equal number of applications from new as well as existing units, yet, number-wise as well as amount-wise, it has favoured applications from existing units, because the number and the amount of the sanctioned applications of existing units are higher than those of the new units. This has been confirmed by the positive value of Q[1] between applications from existing units and their sanction, which is +.08 considering the number and +.34 considering the amount.

9.2. The average size of applications of existing units is higher than that of the new ones, and the sanctioned applications of the existing units are of a still higher average size. On the other hand, the average size of applications of new units is lower than that of the existing ones, but as far as their sanctioned applications are concerned the average size is still lower. The rejected applications of existing units have lower average size as compared to that of the new units.

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[1]Q is the Co-efficient of Association as given by Yule, G. U. and Kendall, M. G. : An Introduction to the Theory of Statistics : London, Charles Griffin & Co. Ltd., p. 30.

9.3. The corporation favours applications of comparatively higher denomination, as the value of Q between applications of higher denomination and their sanction is +.31, which is even higher (i.e. +.51) in case of existing units, but lower (i.e. +.09) in respect of new units.

9.4. On an average corporation has disposed of applications within a period of 163 days, which comes to 138 days in case of sanctions and 196 days in case of rejection thereby indicating a longer period taken in deciding the cases which are ultimately rejected. Maximum period of deciding rejections is also higher than that in approving sanctions. The periodicity of disposal of sanctioned as well as rejected applications has not shown identical trend as the value of rank correlation is only +.59.

9.5. Pre-average period disposals and sanctions have been positively associated, as the value of Q is +.37, which also confirms the tendency for early sanction and late rejection.

9.6. In respect of sanctions as well as rejections, the high-size applications have taken a longer period for disposal. Similarly, the time involved in the disposal of applications from new units is less than it is in respect of existing units.

9.7. The average periodicity of disposal has varied according to the type of the borrowing units. As for as sole proprietary units, partnership firms and private companies are concerned, the periodicity of their sanctions is lower than that

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9.7. The average periodicity of disposal has varied according to the type of the borrowing units. As for as sole proprietary units, partnership firms and private companies are concerned, the periodicity of their sanctions is lower than that

of their rejections, while reverse is the case with public, companies, co-operative societies and joint-Hindu family concerns. The value of rank correlation of the average periodicity of sanction and rejection of applications from various borrowing units is -.86.

9.8. Most of the applications have a denomination below Rs. 5 lakhs. Lower denomination is more popular with rejected applications, as the value of Q between he denomination below Rs. 5 lakhs and the rejection is +.46.

9.9. A large number of the sanctioned as well as rejected applications having denominations below Rs. 5 lakhs are from new units as such the value of Q in their case is +.61 for sanctions and +.40 for rejections.

9.10. Applications of lower denomination have demanded comparatively more funds for acquisition of land, construction of building and working capital, while applications of higher denominations have demanded comparatively more money for purchase of plant and machinery.

10.1. The Corporation had been considering loan applications from sole proprietary units, joint Hindu family concerns partnership firms, private companies, public companies and co-operative societies, but it has dropped from the above list joint Hindu family units because of difficulties in ascertaining the ownership of the properties afforded as security.

10.2. Number-wise as well as amount-wise, the partnership firms have occupied first place, followed by private companies, sole proprietary units, public companies, joint Hindu family units and co-operative societies. But when we consider the cases of sanction and rejection separately the above mentioned order undergoes a wide change as the value of rank correlation in this respect is +.77.

10.3. The average size of all loan applications comes to be Rs. 3.31 lakhs, which is higher in case of public and private companies and lower in respect of partnership firms, co-operative societies, joint Hindu family units and sole proprietary concerns. The value of rank correlation between average size of sanctioned and rejected applications of various borrowing units is +.77 which suggests that there is no rational relationship between the size of applications and their sanctions or rejections.

10.4. The corporation seems to favour applications from new units of sole proprietary concerns, partnership firms and Joint Hindu family units, and from existing units of co-operative societies and public and private companies. It is also confirmed by the value of rank correlation which is +.60 for sanction and +.89 for rejection.

10.5. Number-wise as well as amount-wise the highest demand of funds has been for purchase of plant and machinery, followed by the demands for construction of building, working capital and acquisition of land.

10.6. Demand of funds for acquisition of land is more popular with new units as the value of Yule's co-efficient of association for such demand of new units is +.48 but for acquisition of plant and machinery it is more popular with existing units as the value of Q for such demand by existing units is +.62. The demand of funds for the other two purposes seems to be independent of the age of the borrowing units, as the value of the Yule's co-efficient in respect of demand of funds for construction of buildings by new units is +.125; and it is -.1 for meeting the working capital requirements.

10.7. The Corporation has favoured applications from existing units for purchase of plant and machinery, as the value of Yule's co-efficient of association in case of rejected applications it is +.1. On the other hand, the Corporation has disfavoured demands of funds for acquisition of land by new units, as the value of Yule's co-efficient of association in respect of their sanctioned application is merely +.4, whereas for rejected applications it is +.54. The demand of funds for the other two purpose does not indicate any favour or disfavour on the part of the corporation, as the values of Yule's co-efficient of association for sanctioned as well as rejected applications is almost negligible.

10.8. With two exceptions demanding funds only for working capital, all other 38 out of 100 applications have demanded funds upto about 30% of their denomination for land and working capital.

10.9. The demand of funds for construction of building is more popular as 80 out of 100 units have demanded funds for this purpose, but the corporation on its part favours the demands of smaller amounts for this purpose, as the value of Yule's co-efficient of association between demand below 50% of the total amount of applications and their sanction is +.25.

10.10. The demand of funds for purchase of plant and machinery has been most popular, as 95 out of 100 units have demanded funds for this purpose and the corporation has favoured proportionately larger demand for this purpose, as the value of Yule's co-efficient of association between the demand for this purpose, which is over 50% of the amount of each such application and its sanction is +.43.

10.11. The demand of funds for land and for working capital is only 2% of the total amount for both the purposes separately. Funds demanded for construction of building and purchase of plant and machinery is 30% and 66% respectively of the total amount of sanctioned applications. Partnership firms and private companies have demanded funds above 66% for purchase of plant and machinery and below 30% for construction of building, while sole proprietary units and public companies have shown a reverse tendency in respect of the demand of funds for these purposes.

11.1. The cost of project includes expenditure on land, building, plant and machinery, technical know-how and preliminary expenses etc., which are generally financed by owned sources including capital, government subsidy or internal cash accruals, and loaned sources which include debentures, loans or public deposits. At the low levels of the cost of projects, dependence on the loaned finances is higher as compared to the owned finances but the dependence on owned finance increases with the increase in the cost of projects as the value of Yule's co-efficient of association between cost of projects above Rs. 10 lakhs and the dependence on the owned finance is +.23.

11.2. In respect of loaned finance the dependence on the corporation is higher at the lower levels of the cost of projects than it is at higher levels as the value of the Yule's co-efficient of association between cost of projects below Rs. 10 lakhs and loans from the corporation is +.59. Thus alongwith increase in the cost of projects, the borrowing units depend more and more either on owned finance or on the loans from the sources other than the corporation.

11.3. The corporation has favoured applications demanding lower amounts in proportion to the total cost of projects. It is clear from the fact that, on an average, the demand of the sanctioned applications is 39% of the total cost of the project, whereas that of the rejected applications it is 53%.

11.4. The corporation favours proportionately higher demand of funds from the projects of lower cost, as the percentage of the corporation's loan in their case of costs of projects is higher on sanctioned applications, but lower on rejected ones and vice-versa.

11.5. The corporation has not favoured smaller projects, as the value of Yule's co-efficient of association between projects costing below Rs. 10 lakhs and the sanction is -.425.

11.6. The corporation's favour for bigger projects is also obvious by the fact that the average cost of projects on sanctioned applications is higher than on rejected ones. Considering individually, it is observed that the corporation has favoured such projects of partnership firms, public and private companies and the smaller ones of the sole proprietary units, joint Hindu family concerns and co-operative societies.

11.7. As compared to the new units the existing units depend more on the corporation's loan, as the percentage of such loans to the cost of project of existing units on sanctioned as well as rejected applications is higher than it is for the new units.

11.8. As far as the dependence on the corporation's loan is concerned the co-operative society is at the top, followed by sole proprietary units, joint Hindu family concerns, partnership firms, public and private companies.

11.9. There is a positive relationship between the cost of projects and the denomination of applications at various levels, as the value of co-efficient of correlation is +. 64, which indicates the presence of applications of lower denomination even in respect of projects of higher costs.

11.10. The value of co-efficient of correlation between cost of projects and size for sanctioned applications is +.58, and that for the rejected applications it is +.90, which suggests that the corporation has discouraged applications of higher denomination even for projects of higher costs, because alongwith increase in the denomination of such application, the possibility of their rejection increases.

12.1. The corporation finances the projects after their thorough scrutiny, as the amount sanctioned in some cases is even higher than the amount originally applied for, so that the loan alongwith funds from other sources proves to be sufficient for the functioning of the project. A large number of cases the amount sanctioned is below the amount applied for, but in certain other cases the sanction is the same as the amount of the application.

12.2. On an average, the sanction is equal to 91% of the amount of application, but it is lower in case of new units and higher for existing units. A lower denomination of applications it is still lower in case of new units and higher in case of existing units.

12.3. Most of the sanctions are on applications having denominations below Rs. 5 lakhs, but they are more popular with new units than the existing units, because the value of Yule's co-efficient of association between applicationsbelow Rs. 5 lakhs for new units and their sanction is +.65.

12.4. Amount of sanctions more than or equal to the amount applied for are more popular with applications of higher denominations, as the value of Yule's co-efficient of association between sanctions equal to or more than the amount applied for and applications of the denomination above Rs. 5 lakhs is +.44.

12.5. In respect of sanctions, the corporation seems to favour public companies and disfavours partnership firms, as the percentage of sanction to these units to the total sanction is higher and lower than the percentage of amount of applications of these units to the total amount of applications from all units respectively. Thus the corporation neither favours nor disfavours the sole proprietary units, joint Hindu family concerns, private companies and co-operative societies, as their percentage in both cases is equal.

12.6. Out of the total sanction, on an average, 11% has been more than the original requirements but in case of sole proprietary units it is 31%. Similarly sanctions equal to the original demand cover, on an average, 56% of the total sanction but in the case of the private companies it is 69% and for public companies 84%. Again the sanctions less than the

requirements cover, on an average, 33% of the total sanction, which in the case of partnership firms is 53%. This indicates a favour for sole proprietary units, public companies and private companies and disfavour for partnership firms.

12.7. On an average, 88% of the total amount of all applications has been sanctioned to new units, but this percentage of sanction is higher in case of private companies indicating a favour for them and lower in all other cases, indicating disfavour or neither favour nor disfavour to them. Thus in case of the existing units the corporation has favoured public companies, disfavoured partnership firms and private companies and remained unbiased with sole proprietary units and co-operative societies.

12.8. Though the corporation is authorised to sanction loan for a period upto 20 years, yet the periodicity has ranged from 3 to 12 years. Most popular term of the loan has been 10 years and average period is 7.5 years with the standard deviation of 1.8 years.

12.9. The rate of interest charged has also varied from 6 to 10 percent per annum, wherein number-wise as well as amount-wise, 8.5 percent appears to be the most popular rate, the average rate being 7.8% with the standard deviation of 1.3%.

13.1. Out of the total sanction, 36% has gone to new units and the rest 64% to existing units, and out of the total disbursement proportion of the disbursement to new units is still lower than that of the existing ones, which suggests a favour for existing units in respect of disbursement; This becomes more obvious by observing the overall percentage of disbursement is relation to the total sanction which is 90% but separately considered new units get 86% of their total sanction, whereas the existing units get 92%.

13.2. 38 out of 56 disbursements amounting to 70% of the total amount, have been completed in full out of which 68% relates to existing units and only 32% to new units, although both share the number of complete disbursements equally. There is positive association in respect of existing units getting full disbursement as the value of the Yule's co-efficient of association is +.15 which indicates that existing units are in slightly favourable position to withdraw the amount soon after the sanction as compared to new units.

13.3. In the matter of disbursement the corporation seems to favour public companies, disfavour sole proprietary units and remain unbiased towards partnership firms and private companies because the percentage of disbursement to their sanctions has been higher, lower and equal respectively as compared to the average percentage for all units. This tendency is obvious in respect of new as well as existing units alike, which

has been further proved by the comparison of percentage of sanction to various units to total sanction with the percentage of disbursements to various units to the total disbursements.

13.4. Considering full disbursement to various units it appears that the corporation favours public companies, as the percentage of full disbursement to their sanction is higher than the same for all units (i. e. 70%). In all other cases such percentage has been lower. On this basis the corporation seems to favour new units of sole proprietary concerns and private companies and disfavour new partnership firms.

13.5. The disbursement starts after the expiry of a certain period during which a few legal formalities have to be completed. This period, on an average, comes to be 6.3 months, which is only 4.5 months in case of new units and7.1 months in case of existing units. Thus a sufficiently long time passes before the borrowing units get funds to start their project.

13.6. The average period for all units has been 6.3 months taking this as measuring rods the disbursement starts earlier in case of sole proprietary units, partnership firms, and private companies whereas in case of public companies it has taken fairly a long period.

13.7. Most of the disbursements have been completed within a period of a year, the average period for all units being 7.5 months. But considering separately, the new units take a

longer period (8.4 months) and the existing units a shorter one (6.5 months). The value of mode for complete disbursement is 6.4 months for all units taken together, 6.7 months for new units and 6.2 months for existing units separately.

13.8. The disbursement is made in instalments where the modal number for new units is three and for existing units it is two. Taking both the number and the amount of disbursement into account, it is revealed that the corporation disburses the total amount to the new units by instalments of smaller size than those to the existing units.

13.9. The average number of instalments for disbursement is three, but most of the disbursements to existing units have been completed in less than three instalments. The value of Yule's co-efficient of association in this respect is +.54.

14.1. The repayments start after the expiry of a gestation period extending upto two years but the number-wise as well as amount-wise most popular gestation period ranges from 12 to 18 months. The corporation seems to allow higher gestation period to new units and lower to existing units as the value of Yule's co-efficient of association between gestation period over one and a half years and the start of repayment by new units is +.3.

14.2. A lower gestation period is comparatively more popular with sole proprietary units and partnership firms but reverse is true about the public companies, joint Hindu family units, co-operative societies and private companies.

14.3. Out of the total number of 32 units starting repayments, about half of them start repayments on or before the expiry of the gestation period, but the rest after its expiry, which in some cases have extended even beyond a few years. Although the number of units in the above two categories is equal, the amount of disbursements to the units starting repayments on or before the expiry of gestation period is only 43% and of those starting repayment after the expiry of gestation period is 57%, which indicates that units getting smaller disbursement have started repayments punctually.

14.4. Out of the total number of units having started repayments, most of them have made only part repayment of which a large number of units have been making regular repayments. In the matter of regular repayments the existing units seem to be more particular as the value of the Yule's co-efficient of association in their case is +.55.

14.5. Most of overdue repayments from new units are from partnership firms and sole proprietary units, whereas most of their regular repayments are from private companies. Similarly most of overdue repayments from existing units are from partnership firms but most of the regular repayments are made by public companies.

14.6. Out of 24 units making no repayment at all, in the majority of cases the repayments have not been due. Of these seven cases of overdue repayments 5 belong to private companies and partnership firms.

14.7. On the whole, overdue repayments suffer a lapse of years but those concerning units getting higher size of disbursements have not crossed the period of one year but the lower the size of disbursement the higher the period of overdue repayments.

14.8. The number of overdue non-payment or irregular repayment in respect of new disbursement is greater than it is in respect of old ones.

14.9. As far as the payment of interest is concerned most of it belongs to the category of partly regular payment, of which most of the instalments have been paid regularly on due dates.

14.10. Irregularity in payment of interest is obvious in case of partnership firms and private companies and regularity in case of sole proprietary units, joint Hindu family units and public companies.

14.11. In some cases the time of overdue irregular payment of interest has gone beyond six months but overall average period in this respect is 48 days with the standard deviation of 44.84 days.

APPENDICES

The Appendices are mostly [illegible] this [illegible] have been [illegible] material for reference [illegible] purposes [illegible]

APPENDIX A

List of Industrial Banks* Established before Independence

S. No.	Name of the Bank	Year of Registration	Paid up Capital (Rs. in lakhs)
1.	The Tata Industrial Bank	1917	225.16
2.	The Industrial Bank of Western India	1919	39.47
3.	The Indian Industrial Bank	1920	3.26
4.	The Karnani Industrial Bank	1921	60.00
5.	The Simla Banking and Industrial Company	1921	3.39
6.	The Raikut Industrial Bank	1922	2.47
7.	The Laxmi Industrial Bank	1923	1.01
	Native States		
8.	The Central Travancore Industrial Bank	1919	--
9.	The Mysore Industrial Bank	1920	6.07
10.	The Gundulpet Industrial Bank	1920	--
11.	The South Malabar Industrial Bank	1920	--

*Source : Rau, B. R. : Present-Day Banking in India : Calcutta, University of Calcutta, 1938, p. 343.

Why this here! This is mere reproduction — Some of these are already dead. useful purpose is mentioning this > by Rau!

APPENDIX B

List of financial corporations working at national level:

S. No.	Corporation	Head Office	Date of Establishment	Authorised Capital (Rs. in Crores	Paid-up Capital (Rs. in Crores)
1.	Industrial Finance Corporation of India	New Delhi	July, 1948	10.00	8.35
.	National Industrial Development Corporation Ltd.	New Delhi	Oct. 1954	1.00	00.10
.	National Small Industries Corporation Limited	New Delhi	Feb. 1955	3.50	00.50
.	Industrial Credit and Investment Corporation of India	Bombay	March,	25.00	7.50
	Rehabilitation of Industries Corporation Ltd.	Calcutta	April, 1959	5.00	5.00
	Film Finance Corporation of India	Bombay	March, 1960	1.00	0.50
	Agricultural Refinance Corporation of India	Bombay	July, 1963	25.00	5.00
	Industrial Development Bank of India	Bombay	July, 1964	50.00	10.00
	Agricultural Finance Corporation Ltd.	Bombay	April, 1968	5.00	5.00

APPENDIX C

List of State Financial Corporations

Sr. No.	Corporation	Head Office	Date of Establishment	Authorised Capital (Rs. in Crores)	Paid-up Capital (Rs. in Crores)
1.	Madras Industrial Investment Corporation Ltd.	Madras	March, 1949	10.00	2.95
2.	Punjab Financial Corporation	Chandigarh	Feb., 1953	1.00	0.75
3.	Krala Financial Corporation	Trivendrum	Nov., 1953	2.00	1.00
4.	Maharashtra State Financial Corporation	Bombay	Nov., 1953	1.50	1.50
5.	West Bengal Financial Corporation	Calcutta	March, 1954	2.00	1.00
6.	Assam Financial Corporation	Shillong	April, 1954	3.00	1.00
7.	Uttar Pradesh Financial Corporation	Kanpur	August, 1954	3.00	1.85
8.	Bihar State Financial Corporation	Patna	Nov., 1954	2.00	1.00
9.	Rajasthan Financial Corporation	Jaipur	January, 1955	2.00	1.00
10.	Madhya Pradesh Financial Corporation	Indore	June, 1956	2.00	1.00
11.	Andhra Pradesh State Financial Corporation	Hyderabad	Nov., 1956	4.00	1.50

Appendix C (contd.)

S. No.	Corporation	Head Office	Date of Establishment	Authorised Capital (Rs. in Crores)	Paid-up Capital (Rs. in Crores)
12.	Orissa State Financial Corporation	Cuttack	March, 1957	2.00	1.00
13.	Mysore State Financial Corporation	Banglore	March, 1957	2.00	1.00
14.	Jammu & Kashmir State Financial Corporation	Srinagar	Dec., 1959	1.00	0.77
15.	Gujarat State Financial Corporation	Ahemdabad	May, 1960	2.00	1.00
16.	Delhi Financial Corporation	New Delhi	April, 1967	0.50	0.50
17.	Haryana Financial Corporation	Chandigarh	April, 1967	1.00	1.00
18.	Himachal Pradesh Corporation	Shimla	April, 1967	0.50	0.25

APPENDIX D

List of Small Industries Corporations

S. No.	Corporation	Head Office	Year of Establishment
1.	Uttar Pradesh Small Industries Corporation	Kanpur	1958
2.	Mysore Small Industries Corporation Limited	Banglore	1960
3.	Bihar State Small Industries Corporation Limited	Patna	1961
4.	Gujarat Small Industries Corporation Limited	Ahemdabad	1961
5.	Kerala State Small Industries Corporation Limited	Trivendrum	1961
6.	Madhya Pradesh Small Industries Corporation Limited	Bhopal	1961
7.	West Bengal Small Industries Corporation Limited.	Calcutta	1961
3.	Andhra Pradesh Small Scale Industries Development Corporation Limited	Hyderabad	1961
).	Orissa Agra & Small Industries Corporation Limited.	Cuttack	1961
0.	Rajasthan Small Industries Corporation Limited	Jaipur	1961
1.	Maharashtra Small Scale Industries Development Corporation Limited	Bombay	1962

Appendix D (Contd.)

S. No.	Corporation	Head Office	Year of Establishment
12.	Punjab State Small Industries Corporation Limited	Chandigarh	1962
13.	Assam Small Industries Corporation Limited	Gauhati	1962
14.	Tamilnadu Small Industries Corporation Limited	Madras	1965
15.	Tripura Small Industries Corporation Limited	Agartala	1965
16.	Himachal Pradesh State Small Industries & Export Corporation Ltd.	Shimla	1966
17.	Haryana State Small Industries & Export Corporation Limited.	Chandigarh	1967
18.	Manipur Small Industries Corporation Limited	Imphal	1969

APPENDIX E

List of State Industrial Development Corporations

S. No.	Corporation	Head Office	Year of Establishment
1.	Andhra Pradesh Industrial Development Corporation Limited	Hyderabad	1960
2.	Bihar State Industrial Development Corporation Limited	Patna	1960
3.	Punjab State Industrial Development Corporation Limited	Chandigarh	1960
4.	Kerala State Industrial Development Corporation	Trivendrum	1961
5.	Uttar Pradesh Industrial Corporation Limited	Kanpur	1961
6.	Gujarat Industrial Development Corporation	Ahemdabad	1962
7.	Maharashtra Industrial Development Corporation	Bombay	1962
8.	Industrial Development Corporation of Orissa Limited	Bhubaneswar	1962
9.	Mysore State Industrial Investment and Development Corporation Ltd.	Banglore	1964
10.	Assam Industrial Development Corporation Limited	Shillong	1965

Appendix E (Contd.)

S. No.	Corporation	Head Office	Year of Establishment
11.	Madhya Pradesh Industrial Development Corporation Limited	Bhopal	1965
12.	Tamilnadu Industrial Development Corporation Limited	Madras	1965
13.	Himachal Pradesh Mineral of Industrial Development Corporation Ltd.	Simla	1966
14.	Haryana State Industrial Development Corporation Limited	Chandigarh	1967
15.	West Bengal Industrial Development Corporation Limited	Calcutta	1967
16.	Jammu & Kashmir State Industrial Development Corporation	Srinagar	1969
17.	Meghalaya Industrial Development Corporation Limited		1971
18.	Nagaland Industrial Development Corporation Limited	Dimapur	1971

APPENDIX F

Questionaire Prepared for Collecting Informations

1. Amount Applied
2. Constitution
3. Date and Place of Establishment
4. Type of Industry
5. Outstanding Liabilities (IT & CT)
6. Loans and Advances
7. Borrowing Power
8. Nature of Project
   - (a) New Undertaking
   - (b) Exhisting Undertakings
     - (1) Expansion
     - (2) Modernisation
     - (3) Diversification
9. Technical and Financial Collaboration
10. Number of Employees
11. Cost of Project
    - (a) Land
    - (b) Building
    - (c) Plant & Machinery
    - (d) Other Fixed Assets
    - (e) Technical Know How
    - (f) Preliminary Expenses
    - (g) Others
12. Amount Applied for :
    - (a) Land
    - (b) Building
    - (c) Plant and Machinery
    - (d) Others
13. Means of Financing
    - (a) Share Capital
    - (b) Debenture
    - (c) Long-term Loans
    - (d) Unsecured Loans & Deposits
    - (e) Diferred Payment
    - (f) Government Subsidy
    - (g) Internal Cash Accruals
14. Price Control
15. Market Conditions
16. Sales Organization

17. Borrower's Financial Position
    (a) Capital
    (b) Reserve
    (c) Debentures
    (d) Term Loans
    (e) Current Liabilities
    (f) Fixed Assets
    (g) Current Assets
    (h) Total Income
    (i) Total Expenditure
    (j) Net Profit
    (k) Taxes and Reserve
    (l) General Reserve
    (m) Other Reserve
    (n) Dividend and Rate

18. Date and Amount of Sanction
    (a) Building
    (b) Plant and Machinery
    (c) Land
    (d) Working Capital

19. Period for Sanction

20. Rate of Interest

21. Reference to Credit Gurantee

22. Legal Fees and Expenses

23. Refinance Obtained

24. Pre-disbursement Inspection

25. Disbursement of Loans (Date and Amount)
    (a)
    (b)
    (c)
    (d)

26. Security Available
    (a)
    (b)
    (C)
    (d)

27. Mode of Repayment of Loan (Amount due on and paid on)
    (a)
    (b)
    (c)
    (d)

28. Mode of Payment of Interest (Amount due on and paid on)
    (a)
    (b)
    (c)
    (d)

APPENDIX G

Employees of the Corporation

S. No.	Category	Number
1.	Managing Director	1
2.	General Manager	1
3.	Law Officer	1
4.	Dy. Law Officer	1
5.	Assistant Secretary	1
6.	Accountant	1
7.	Technical Officer	1
8.	Loan Officer	1
9.	Assistant Technical Officers	5
10.	Branch Manager	2
11.	Senior Superintendents	2
12.	Superintendents	14
13.	Inspector (On deputation from Directorate)	1
14.	Stenographer	4
15.	Senior Typist	1
16.	Senior Assistant	13
17.	Junior Assistant/Steno-typist	11
18.	Clerk/typist	25
19.	Driver	1
20.	Record Keeper	1
21.	Daftri-Duplicating Operator	2
22.	Peons/Chaukidar/Sweeper/Mali	16

APPENDIX H

Pay Scales of the Employees of the Corporation

S. No.	Category	Scales
	'A' CLASS	
1.	Managing Director	
2.	General Manager	1300-50-1500-75-1800
3.	Secretary	1000-1500
4.	Chief Accountant	600-50-800-EB-50-1050-EB-50-1250
5.	Technical Officer	300-25-500-EB-30-700-EB-50-900
6.	Law Officer	400-30-550-EB-30-700-EB-50-1000.
7.	Asstt. Secretary	400-30-550-EB-30-700-EB-50-1000.
8.	Asstt. Accounts Officer-cum-Accountant	400-30-550-EB-30-700-EB-50-1000.
9.	Loan Officer	400-30-550-EB-30-700-EB-50-1000.
10.	Branch Manager	300-25-600.
11.	Asstt. Technical Officer	225-15-360-20-500.
12.	Superintendents	200-15-275-EB-15-350-EB-20-450.
13.	Dy. Law Officer	1350 Consolidated.

Appendix H (Contd.)

S. No.	Category	Scales
	'C' CLASS	
14.	Stenographer	160-8-200-EB-10-260-EB-12-320.
15.	Senior Assistants	140-8-180-EB-10-230-EB-10-280.
16.	Stenotypist	120-6-150-EB-6-180-EB-10-230-EB-10-250.
17.	Jr. Assistants	120-6-150-EB-6-180-EB-10-230-EB-10-250.
18.	Clerks, Despatchers and Typists	100-4-120-EB-5-145-EB-5-170-EB-5-180.
19.	Record Keeper	80-3-140.
	'D' CLASS	
20.	Daftari, Duplicating Operator	60-1-65-EB-1-70-EB-1-75-EB-1-80.
21.	Peons, Chowkidars, Waterman-cum-Farrash and Mali	55-1-60-EB-1-65-EB-1-70-EB-1-75.
22.	Sweeper	55-1-60-EB-1-65-EB-1-1-70-EB-1-75.

APPENDIX I

Uttar Pradesh Financial Corporation
7/154, Swarup Nagar, Kanpur-2

REGISTERED A. D.

M/s. ------------------------------

Dear Sir(s),

With reference to your application for a loan of Rs. ------------------ (Rupees ---------------------------) only, we have the pleasure to inform you that a loan of Rs. -------------------- (Rupees -------------------------) only has been sanctioned in your favour on the terms and condition detailed below :-

(1) Purpose :-

That the loan will be utilised only for the following purposes :-

(a) For construction of additional factory building/factory building Rs.

(b) For purchase of additional plant and machinery/plant & machinery Rs.

(c) For purchase of land. Rs.

(d) For working capital :-
(i) For setting up the factory Rs.
(ii) For running the concern Rs.

(2) Security :

That the loan will be secured by the mortgage of the following assets :-

Plus the assets to be created with the loan and the personal guarantee of Servsri ---------------------
--------------- & -------------- jointly and severally. The total value of the fixed assets should not be less than the double the amount of the loan. The valuation as may be done by the Technical Experts appointed by the Corporation, shall be final.

(3) Repayment :-

That the loan will be repayable in ---------- years equal annual instalments the first....for repayment one year/eighteen months after the first disbursement of the loan.

(4) Rate of Interest :-

That the loan will bear interest @ 3% above the Reserve Bank of India rate subject to a minimum of 8½% per annum with a rebate of 1% per annum, if the instalments of principal and interest due are paid by the due dates during the whole year. If interest due or any part thereof remain unpaid on due dates, the interest shall be charged at the aforesaid rate from the respective times of such interest accruing due upon the footing of compound interest computed at the rate aforesaid with rests taken half-yearly. But if the delay in payment of the

instalments either of interest or principal is more than six months beyond the due date 2% per annum over the above the aforesaid rate of interest shall be charged compoundable with half-yearly rests on amounts with respect to which such default is made.
Interest shall be payable half-yearly on the 31st day of December and 30th day of June each year.

(5) That your case will be referred to credit guarantee organisation of Reserve Bank of India for obtaining the guarantee facilities and you will have to comply with all the requirements of the said guarantee organisation. The guarantee commission would be payable at 1/10% per annum in the first instance on the sanctioned amount of the loan and thereafter on the amount outstanding at the beginning of each year.
If guarantee is obtained the case will also be referred to the Industrial Development Bank of India, for obtaining the refinance facilities. All the formalities as may be suggested by the Industrial Development Bank of India shall have to be observed by you. You will also have to agree to reduce the repayment period of the loan or the number of instalments as and when suggested by the said financial institution. Not withstanding the higher rate of interest mentioned above in case the Corporation obtains refinance facility the rate of interest mentioned above in case the Corporation obtains

refinance facility the rate of interest chargeable shall be 8½% (eight and one half per cent) per annum with a rebate of 1% (One per cent) per annum if the instalments of principal and interest are paid on or before the due dates throughout the whole year.

(6) That a sum of Rs. ----------------- only (Rupees ------------------ legal fee and expenses Rs. ---------------) will have to be paid by you to the Corporation on account of legal expenses and such other expenses like commitment levy travelling expenses of the officers and/or experts appointed by the Corporation for evaluation of the assets of the concern that may be incurred by the Corporation. The unspend amount, if any, shall either be returned to you or adjusted to your loan account. All the legal formalities as may be suggested by the Law Officer of the Corporation from time to time shall have to be observed by you.

APPENDIX J

Terms and Conditions of the Loan Applicable to Sole Proprietary Concerns

1. That all the assets to be mortaged to the Corporation shall be insured for their full value, as may be determined by the Corporation at its discretion, during the currency of the loan against fire, riot, strike or other civil commotion and all such other risks or such of them as may be regarded appropriate by the Corporation, with the Life Insurance Corporation of India and with any of the other Insurance Companies approved by the Corporation (as per list currently approved enclosed) in the joint names of the Corporation and yourselves and the policy shall contain the usual mortgage clause and the replacement value clause. As regards the existing insurance policies they should be assigned in favour of the Corporation. The percentage of Insurance in the Life Insurance Corporation of India and other approved Insurance Companies shall be, as follows :-

(a) Life Insurance Corporation of India ....%

(b) Any of the approved Companies ....%

The Corporation shall have the right to amend the list of Insurance Companies from time to time, which shall be binding on you. All the policies as mentioned above will have to be deposited with the Corporation. The policies shall be kept alive and renewed on the due dates, failing which the Corporation may in its discretion keep alive the policies at your cost.

2. That a sum of Rs. .... (Rupees .... legal fee & Rs. ....expenses) will have to be paid by you to the Corporation on account of legal expenses and such other expenses like commitment levy, travelling expenses of the officers and/or experts appointed by the Corporation for evaluation, of the assets of the concern that may be incurred by the Corporation. The unspent amount, if any, shall either be returned to you or adjusted to your loan account. All the legal formalities as may be suggested by the Law Officer of the Corporation from time to time shall have to be observed by you.

3. The loan shall be utilised for the specific purpose for which the same has been sanctioned and shall be disbursed by the Corporation after the completion of all legal formalities, in lump sum and/or in instalments depending upon the progress of implementation of the project at the sole discretion of the Corporation and may be refused if in the opinion of the Corporation the purposes for which the loan has been sanctioned are not properly carried out.

4. No portion of loan shall be kept in call, short-term, fixed or any other deposit with any Bank without obtaining the previous approval of the Corporation.

5. The amount of the loan shall be placed at the disposal of your Bankers to be kept in a separate account and the Bank should agree with the Corporation in writing not to exercise its general lien thereon.

You are requested to give us at least 10 (ten) days prior notice of your intention to withdraw any part of the loan to enable us to make necessary arrangements.

6. (a) That the loan shall be availed of within Six (6) months of the date of sanction advice, commitment levy @ ½% per annum will be charged thereafter upto a period of 3 months and thereafter @ 1% per annum upto a period of 6 months. The Corporation, further at its discretion can extend the period, depending on the merits of each case, provided commitment levy is paid at the rate that may be fixed by the Corporation.

(b) That the entire loan will be withdrawn and scheme completed by the .... (date to be fixed by mutual agreement) otherwise commitment levy @ 1% per annum will be charged on the undrawn portion of the loan until such time as the said amount may be availed of by the Borrower(s) who shall not have the right to defer the availing of the said amount from the Corporation for a period exceeding 6 (six) months after the above date unless permitted by the Corporation.

(c) If the Borrower does not before the expiry of these six months avail of the amount not availed of, or if the scheme submitted by the Borrower becomes complete in any less amount than sanctioned, then the Corporation would have a right to reduce the amount sanctioned to such amount as has already been availed of without proportionately reducing the amount of annual instalment of principal.

7. If the first instalment of the loan is not lifted within nine (9) months or such extended period as may be permitted by the Corporation, the Corporation shall have the right to cancel the loan sanctioned without any notice.

8. You should file a copy of the Import Licence duly certified (if applicable) or assure that the machinery proposed to be purchased and connected with the scheme for which the loan has been sanctioned is available within the country and that the same can legally be mortgaged to the Corporation.

9. Before the execution of the legal documents, the Corporation shall ensure that :-

(a) The assets offered as security have been evaluated by the experts that may be appointed by the Corporation at your expense and found of sufficient value according to the rules of the Corporation:

(b) Your concern has obtained the necessary licence for the expansion and a copy thereof submitted to the Corporation (if applicable) :

(c) You satisfy the Corporation that requisite quantity of power is available to run the scheme for which the loan has been sanctioned :

(d) Income-tax, wealth-tax and sales-tax clearance certificates in respect of the Proprietor and the concern are received:

(a) A satisfactory Bank Report on Proprietor and the concern is received.

10. During the currency of the loan, you will not creat any further encumbrance on the assets mortgaged to the Corporation, without previous consent in writing from the Cor Corporation.

11. That the Corporation will have the right to have your books of account inspected by an officer of the Corporation or by a qualified Auditor as also the right to have, when necessary, a technical investigation of the concern carried out by an experts approved by the Corporation. The cost of such inspections shall be borne by you.

12. You will get the accounts audited by the Chartered Accountant every year during the currency of the loan and send the Balance Sheet and Profit & Loss Account every year to the Corporation. In case of your failure to do so the Corporation will have a right to have your accounts audited at your expense by a Chartered Accountant appointed by it.

13. That the concern shall furnish to the Corporation copies of documents in respect of existing charges or arrangements with Bankers.

14. You will not undertake any new scheme other than the one(s) submitted by you to the Corporation in connection with

the loan sanctioned to you and approved by the Corporation, nor shall you undertake the expansion of the present capacity of your factory and plant involving additional expenditure, without the prior approval of the Corporation had and obtained in writing.

15. That the provisions of the State Financial Corporations Act, 1951 (No. LXIII of 1951) as amended uptodate, and the Public Moneys (Recovery of Dues Act, 1965) and the rules and orders made thereunder as inforce now or hereafter shall govern the loan transaction.

16. That the Corporation shall not have any lien on stores and spares both present and future, goods in process, stock-in-trade, raw-materials, bills and finished and unfinished goods. You will be free to raise funds from Banks against pledges or hypothecations thereof.

17. A minimum security margin of % shall be maintained during the whole of the currency of the loan.

18. That the mortgage-deed or Deed of further charge will be in the prescribed form, which contains additional terms and the conditions and the same are subject to changes as may be deemed necessary by the Corporation. You may inspect a specimen of the above deeds at our office and will be deemed to have full notice of all provisions thereof. A copy of the said draft can also be supplied by us at a cost of Rs. 5/- at your request.

19. That your case will be referred to credit guarantee organisation of Reserve Bank of Indiafor obtaining the guarantee facilities and you will have to comply with all the requirements of the said guarantee organisation. The guarantee commission would be payable at 1/10% per annum in the first instance on the sanctioned amount of the loan and thereafter on the amount outstanding at the beginning of each year.

If guarantee is obtained the case will also be referred to the Industrial Development Bank of India, Bombay, for obtaining the refinance facilities. All the formalities as may be suggested by Industrial Development Bank of Indiashall have to be observed by you. You will also have to agree to reduce the repayment period of the loan or the number of instalments as and when suggested by the said financial institutions. The loan will not be linked to Bank Rate, if refinance facilities are obtained. Notwithstanding the higher rate of interest mentioned above in case the Corporation obtains refinance facility the rate of interest chargeable shall be   per annum with a rebate of   per annum if the instalments of principal and interest are paid on or before the due dates throughout the whole year.

20. You shall agree not to lend funds to any one nor invest the same in purchase of shares of any other concern, during the currency of the loan, without the prior permission of the Corporation in writing.

21. You will have to take the prior permission of the Corporation before appointing any Selling Agents on such terms and conditions as may be approved by the Corporation.

22. You shall agree not to let out or give on lease or Licence whole or any portion of your land and/or building and/or machinery to any one, without the prior written permission of the Corporation.

23. The Corporation reserves the right to display signboard to the effect that all machinery, land and buildings are mortgaged to the Corporation by way of security for the repayment of the loan.

24. You shall agree not to undertake any trading activity during the currency of the loan, without the prior permission of the Corporation obtained in writing.

25. That you give us an undertaking in the form enclosed that you will procure funds to meet overruns/short fall, if any, in financing the capital cost of the project and/or working capital.

APPENDIX K

Terms and Conditions of the Loan Applicable to Partnership Firms

1. That all the assets to be mortgaged to the Corporation shall be insured for their full value, as may be determined by the Corporation at its discretion, during the currency of the loan against fire, riot, strike or other civil commotion and all such other risks or such of them as may be regarded appropriate by the Corporation, with the Life Insurance Corporation of India and with any of the other Insurance Companies approved by the Corporation (as per enclosed list approved at present enclosed) in the joint names of the Corporation and yourselves and the policy shall contain the usual mortgage clause and the replacement value clause. As regards the existing insurance policies, they should be assigned in favour of the Corporation. The percentage of Insurance in the Life Insurance Corporation of India and other approved Insurance Companies shall be, as follows :-

(a) Life Insurance Corporation of India .... %

(b) Any of the approved Companies .... %

The Corporation shall have the right to amend the list of Insurance Companies from time to time, which shall be binding on you. All the policies as mentioned above will have to be deposited with the Corporation. The policies shall be kept alive and renewed on the due dates, failing which the Corporation may in its discretion keep alive the policies at your cost.

2. The loan shall be utilised for the specific purpose for which the same has been sanctioned and shall be disbursed by the Corporation, after the completion of all legal formalities in lump sum and/or in instalments depending upon the progress of implementation of the project at the sole discretion of the Corporation and may be refused if in the opinion of the Corporation the purposes for which the loan has been sanctioned are not properly carried out.

3. That a sum of Rs. ....(Rupees .... legal fee & Rs. .... expenses) will have to be paid by you to the Corporation on account of legal expenses and such other expenses like commitment levy, travelling expenses of the officers and/or experts appointed by the Corporation for evaluation of the assets of the concern that may be incurred by the Corporation. The unspent amount, if any, shall either be returned to you or adjusted to your loan account. All the legal formalities as may be suggested by the Law Officer of the Corporation from time to time shall have to be observed by you.

4. No portion of loan shall be kept in call, short-term, fixed or any other deposit with any Bank without obtaining the previous approval of the Corporation.

5. The amount of the loan shall be placed at the disposal of your Bankers to be kept in a separate account and the Bank should agree with the Corporation in writing not to exercise its general lien thereon.

You are requested to give us at least 10 (ten) days prior notice of your intention to withdraw any part of the loan to enable us to make necessary arrangements.

6. (a) That the loan shall be availed of within Six (6) months of the date of sanction advice, commitment levy @ ½% per annum will be charged thereafter upto a period of 3 months and thereafter @ 1% per annum upto a period of 6 months. The Corporation, further at its discretion can extend the period, depending on the merits of each case, provided commitment levy is paid at the rate that may be fixed by the Corporation.

(b) That the entire loan will be withdrawn and scheme completed by the .... (date to be fixed by mutual agreement) otherwise commitment levy @ 1% per annum will be charged on the undrawn portion of the loan until such time as the said amount may be availed of by the Borrower(s) who shall not have the right to defer the availing of the said amount from the Corporation for a period exceeding 6 (six) months after the above date unless permitted by the Corporation.

(c) If the Borrower does not before the expiry of these six months avail of the amount not availed of, or if the scheme submitted by the Borrower becomes complete in any less amount than sanctioned, then the Corporation would have a right to reduce the amount sanctioned to such amount as has already been availed of without proportionately reducing the amount of annual instalment of principal.

7. If the first instalment of the loan is not lifted within nine (9) months or such extended period as may be permitted by the Corporation, the Corporation shall have the right to cancel the loan sanctioned without any notice.

8. You should file a copy of the Import Licence duly certified (if applicable) or assure that the machinery proposed to be purchased and connected with the scheme for which the loan has been sanctioned is available within the country and that the same can legally be mortgaged to the Corporation.

9. Before the execution of the legal documents, the Corporation shall ensure that :-

(a) The assets offered as security had been evaluated by the experts that may be appointed by the Corporation at your expense and found of sufficient value according to the rules of the Corporation;

(b) Your concern is registered under the Industries (Development & Regulations) Act, 1951 (if applicable) and a certified copy of the said licence is submitted to the Corporation;

(c) Your concern has obtained the necessary licence for the expansion and a copy thereof is submitted to the Corporation (if applicable);

(d) You satisfy the Corporation that requisite quantity of power is available to run the scheme for which the loan has been sanctioned ;

(e) You file Income-tax, wealth-tax and sales-tax, clearance certificates in respect of the Partners and the concern;

(f) A satisfactory Bank Report on Proprietor and the concern is received;

10. That the partnership firm shall be registered with the Registrar of Firms and the partnership deed in original and the certificate of registration in original (which may be returned if a certified copy of the same is supplied to us) shall be furnished to the Corporation.

11. That the Corporation will have the right to have your books of account inspected by an officer of the Corporation or by a qualified Auditor as also the right to have, when necessary, a technical investigation of the concern carried out by an expert(s) approved by the Corporation. The costof such inspections shall be borne by you.

12. You will get the accounts audited by a Chartered Accountant every year during the currency of the loan and send the Balance Sheet and Profit & Loss Account every year to the Corporation. In case of failure, the Corporation will have a right to have your accounts audited by a Chartered Accountant of its own choice. All such expenses shall be borne by you.

13. That the concern shall furnish to the Corporation copies of documents in respect of existing charges or arrangements with Bankers.

14. You will not undertake any new scheme other than the one(s) submitted by you to the Corporation in connection with the loan sanctioned to you and approved by the Corporation, nor shall you undertake the expansion of the present capacity of your factory and plant involving additional expenditure, without the prior approval of the Corporation had and obtained in writing.

15. That the partners will bind themselves not to dissolve the partnership during the currency of the loan.

16. That the partners will bind themselves not to withdraw any amount from the divisible profits in any year unless full provision has been made for repayment of the total amount which may become due to the Corporation, by way of repayment of the Principal and payment of Interest upto the end of that year :-

17. That the remuneration of the partners will not be increased during the currency of the loan without the prior approval of the Corporation obtained in writing.

18. During the period, the loan from the Corporation is outstanding, you will not create any further encumbrance on the assets mortgaged to the Corporation without previous consent in writing from the Corporation.

19. That the provisions of the State Financial Corporations Act, 1951 (No. LXIII of 1951) as amended uptodate, and the Public Moneys (Recovery of Dues) Act, 1965 and the rules and orders made thereunder as inforce now or hereafter shall govern the loan transaction.

20. That the mortgage deed or Deed of further charge will be in the prescribed form, which contains additional terms and the conditions and the same are subject to changes as may be deemed necessary by the Corporation. You may inspect a specimen of the above deeds at our office and will be deemed to have full notice of all provisions thereof. A copy of the said draft can also be supplied by us at a cost of Rs. 5/- at your request.

21. During the currency of the loan, all your partners shall agree not to dissolve and/or reconstitute and/or make any alterations or changes in the terms, in any way to the existing partnership deed without the prior permission of the Corporation.

22. That your case will be referred to credit guarantee organisation of Reserve Bank of India for obtaining the guarantee facilities and you will have to comply with all the requirements of the said guarantee organisation. The guarantee commission would be payable at 1/10% per annum in the first instance on the sanctioned amount of the loan and thereafter on the amount outstanding at the beginning of each year.

If guarantee is obtained the case will also be referred to the Industrial Development Bank of India, Bombay, for obtaining the refinance facilities. All the formalities as may be suggested by Industrial Development Bank of India shall have to be observed by you. You will also have to agree to reduce the repayment period of the loan or the number of instalments as and when suggested by the said financial institutions. The loan will not be linked to Bank Rate, if refinance facilities are obtained.

case the Corporation obtains refinance facility, the rate of interest chargeable shall be per annum with a rebate of per annum if the instalments of principal and interest are paid on or before the due dates throughout the whole year.

23. That the Corporation will reserve a right to appoint its nominee on the Board of Management of the concern; that you will have to constitute, as and when desired by the Corporation. The Corporation shall also have a right to call the meetings of the said Board as and when necessary.

24. You shall agree not to lend funds to any one nor invest the same in purchase of shares of any other concern, during the currency of the loan, without the prior permission of the Corporation in writing.

25. That you will have to take the prior permission of the Corporation before appointing any Selling Agents on such terms and conditions as may be approved by the Corporation.

26. That you shall agree not to let out or give on lease or licence whole or any portion of your land and/or building and/or machinery to any one, without the prior written permission of the Corporation.

27. That the Corporation reserves the right to display signboard to the effect that all machinery, land and buildings are mortgaged to the Corporation by way of security for the repayment of the loan.

case the Corporation obtains refinance facility, the rate of interest chargeable shall be per annum with a rebate of per annum if the instalments of principal and interest are paid on or before the due dates throughout the whole year.

23. That the Corporation will reserve a right to appoint its nominee on the Board of Management of the concern; that you will have to constitute, as and when desired by the Corporation. The Corporation shall also have a right to call the meetings of the said Board as and when necessary.

24. You shall agree not to lend funds to any one nor invest the same in purchase of shares of any other concern, during the currency of the loan, without the prior permission of the Corporation in writing.

25. That you will have to take the prior permission of the Corporation before appointing any Selling Agents on such terms and conditions as may be approved by the Corporation.

26. That you shall agree not to let out or give on lease or licence whole or any portion of your land and/or building and/or machinery to any one, without the prior written permission of the Corporation.

27. That the Corporation reserves the right to display signboard to the effect that all machinery, land and buildings are mortgaged to the Corporation by way of security for the repayment of the loan.

28. That you shall agree not to undertake any trading activity, during the currency of the loan without the prior permission of the Corporation obtained in writing.

29. That the Corporation shall not have any lien on stores and spares both present and future, goods in process, stock-in-trade, raw-materials, bills and finished and unfinished goods. You will be free to raise funds from Banks against pledges or hypothecations thereof.

30. A minimum security margin of % shall be maintained during the whole of the currency of the loan.

31. That you give us an undertaking in the form enclosed that you will procure funds to meet over-runs/shortfall, if any, in financing the capital cost of the project and/or working capital.

APPENDIX 1

Terms and Conditions of the Loan for Companies and Co-Operative Societies

1. That all the assets mortgaged to the Corporation and also those to be created with the loan shall have to be got insured with an Insurance Company, out of the list of Insurance Companies (enclosed) for an amount fixed by the Corporation and the policy shall be in the joint names of the Uttar Pradesh Financial Corporation and the firm with the usual Bank Clause and also the replacement value clause. The Borrowers shall also keep alive the policy until such time as the loan together with interest thereon has been completely repaid to the Corporation. In case of failure of above, the Corporation shall keep alive the policy at the cost of the concern.

2. That a sum of Rs. -------------- (Rupees ------------------------) only will have to be paid by the Company to the Corporation on account of legal expenses and will have to observe all legal formalities, as suggested by the Law Officer of the Corporation.

3. That the loan will be disbursed by placing the amount which would not be more than 50% of the security, or 50% of the loan amount whichever is less, at the disposal of the Company's bankers to be kept in a separate account and the Bank should agree with the Corporation in writing not to exercise their general lien thereon. For further disbursement a margin

of 50% will be retained at each stage of disbursement.

4. That the loan will be released only after the Managing Director has satisfied himself that the Company has obtained the necessary licence for import of the machiner (if any) or that they are available in India and that the same can legally be mortgaged to the Corporation.

5. That if even the first instalment of the loan is not availed of within nine months of the date of sanction, the sanction will be cancelled.

6. (a) That the loan shall be availed of within six (6) months of the date of sanction advice; commitment levy @ ½% per annum will be charged thereafter upto a period of 3 months and thereafter @ 1% per annum upto a period of 6 months. The Corporation, further at its discretion can extend the period, depending on the merits of each case, provided commitment levy is paid at the rate that may be fixed by the Corporation.

(b) That the entire loan will be with drawn and scheme completed by the Borrower/Company by the ..... (date to be fixed by mutual agreement) otherwise commitment levy @ 1% per annum will be charged on the undrawn portion of the loan until such time, as the said amount may be availed of by the Company/Borrowers who shall not have the right to defer the availing of the said amount from the Corporation for a period exceeding six months after the above date unless permitted by the Corporation.

(c) If the Company/Borrowers does not before the expiry of these six months avail of the amount not availed of, or if the scheme submitted by the Borrower/Company becomes complete in any less amount than sanctioned, then the Corporation would have a right to reduce the amount sanctioned to such amount as has already been availed of without proportionately reducing the amount of annual instalment of principal.

7. That the loan would be released only after :-

(a) the assets offered as security had been got evaluated by the Corporation at Company's expense and found them of sufficient value;

(b) when the concern is registered under the industries (Development & Regulation) Act, 1951 (if applicable) and a copy of the certificate issued by the Government of India to this effect is submitted to the Corporation;

(c) when the concern has obtained the necessary licence for expansion and a copy thereof is submitted to the Corporation.

(d) when the concern has satisfied the Corporation that requisite quantity of Power is available; and

(e) the receipt of satisfactory Bank Reports on the concern as well as the Directors.

8. That a nominee of the Corporation will have to be appointed as a Director on the Board of Directors of the Company.

9. That the Company shall not, without the prior permission of the Corporation obtained in writing, invest its funds by way of deposits, loans, share capital or otherwise in any other concern (including its subsidiaries or holding Company) so long as any money is due from it to the Corporation, provided however, that mothing herein contained shall be construed to restrict or limit the right of the Company to deposit temporarily such funds as may be necessary with parties who may insist on such deposits as a condition of the transaction by them of normal business with the Company.

10. That the Company/Society shall not undertake any new scheme other than the one(s) submitted by it to the Corporation in connection with the loan(s) sanctioned to it, and approved by the Corporation, without the prior approval of the Corporation had and obtained in writing.

11. That until the Corporation's loan, together with interest thereon, had not been fully paid back, the Company would be entitled to declare dividend, in any year, at not more than 6% per annum (Tax-free) and that, too, only after making adequate provision for payment of all the amounts, which may become due to the Corporation by the end of that year, whether in respect of the instalment of principal and the payment of interest due in the same year or in respect of any arrears of past years, but if the Company fails under Section 104 to 109 of the Indian Income-tax Act, they can declare dividend under the terms of that Act.

12. That the terms of the Managing Agency Agreement will not be changed without the concurrence of the Corporation. (In case there are Managing Agents).

13. That the remuneration of the Managing Agents will not be increased during the currency of the loan. (In case there are Managing Agents).

14. That the Company will send a certified copy of their Annual Accounts every year as soon as they are audited and passed by the Directors along with their reports.

15. That the Company will have to submit a certified copy of the resolution duly signed by the Chairman under the common seal of the Company, that the Company is authorised to raise a loan from the Uttar Pradesh Financial Corporation, Kanpur.

16. That the Company will get the charge registered with the Registrar of Companies pursuant to Sections 125 to 130 of the Companies Act, 1956, within 21 days of the execution of the Mortgage Deed.

17. That the party will have to submit a certified copy of the resolution duly signed by the Chairman under the common seal of the Company that Sarvsri ....& .... are authorised to go into legal formalities and to execute the Mortgage Deed on behalf of the Company in connection with the loan -

18. That during the period the loan from the Corporation is outstanding, the Company shall not create any further encumbrances on the assets mortgaged to the Corporation without the previous consent in writing of the Corporation.

19. That the Corporation will have the right to have the Company's factory and books of account inspected by an Officer of the Corporation or a qualified Auditor as also the right to have, when necessary, a technical investigation of the Company carried out by an expert approved by the Corporation. The cost of such inspections will be borne by the Company/Society.

20. That the Company/Society shall of its own accord, make such alterations and additions to its Articles of Association as are necessary to make them conform to the terms and conditions of the loan. The Company shall, in addition, also carry out, whenever called upon by the Corporation to do so, such further alterations and additions to its Articles of Association as may be deemed necessary in the opinion of the Corporation to safeguard its interest.

21. That the Company/Society shall furnish to the Corporation copies of documents in respect of existing charges or arrangements with Bankers.

22. That the Directors and the Managing Agents of the Company shall not be at liberty to dispose of their share holding in the Company without the prior approval of the Corporation.

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23. That the provisions of the State Financial Corporations Act, 1951, as amended uptodate and the rules and orders made thereunder as inforce now or hereafter shall govern this transaction.

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